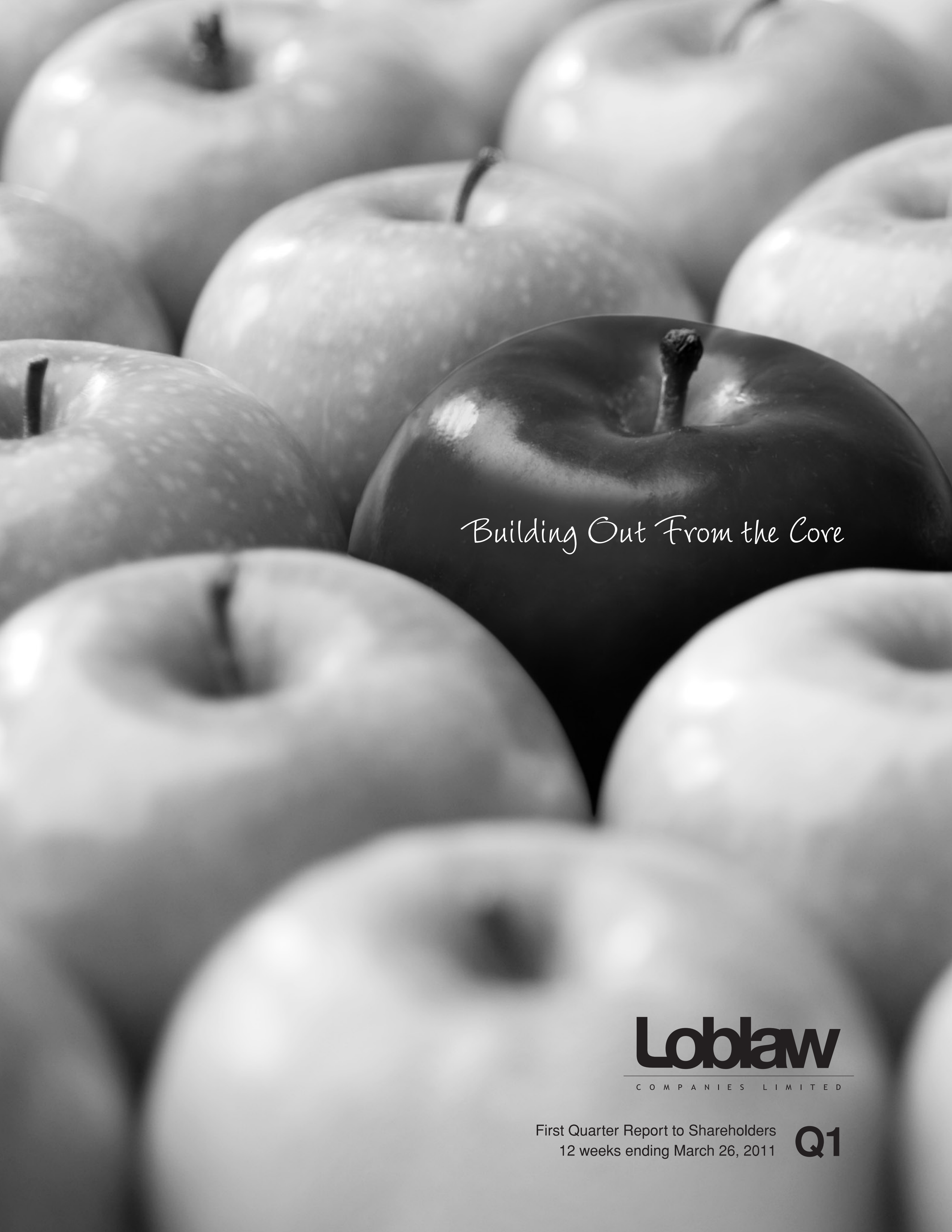

Building Out From the Core

Loblaw
COMPANIES LIMITED

First Quarter Report to Shareholders
12 weeks ending March 26, 2011

Q1

LOBLAW COMPANIES LIMITED REPORTS FIRST QUARTER 2011 RESULTS

2011 First Quarter Summary[(1)]

- Basic net earnings per common share of $0.58, up 20.8%
- EBITDA margin[(2)] of 6.6% compared to 6.2% in the first quarter of 2010
- Revenue of $6,872 million, a decline of 0.6% over the first quarter of 2010
- Retail sales and same-store sales declines of 0.5% and 0.1%, respectively, from the first quarter of 2010

"The Company continues to progress with its renewal plan while it begins to turn its focus on new opportunities for growth," said Galen G. Weston, Executive Chairman, Loblaw Companies Limited. "We remain focused on executing the plan in an unpredictable and competitively intense market environment. At the same time, we continue to expect our investment in information technology and supply chain infrastructure to negatively impact our operating income in 2011."

Due to the transition to International Financial Reporting Standards ("IFRS" or "GAAP") effective the first quarter of 2011, all comparative figures for 2010 that were previously reported in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("CGAAP") have been restated to conform with the new standards adopted. See note 16 to Loblaw Companies Limited's (the "Company" or "Loblaw") first quarter 2011 unaudited interim period condensed consolidated financial statements for further information on the transition to IFRS and its impact on the Company's financial position, financial performance and cash flows.

With this transition, the Company now has two reportable operating segments:

- The **Retail** segment, which consists primarily of food and also includes drugstore, gas bars, apparel and other general merchandise; and
- The **Financial Services** segment, which includes credit card services, a retail loyalty program, insurance services, personal banking services provided by the direct banking division of a major Canadian chartered bank and telecom.

Consolidated Quarterly Results of Operations

For the periods ended March 26, 2011 and March 27, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011** **(12 weeks)**	2010 (12 weeks)	% Change
Revenue	**$ 6,872**	$ 6,913	(0.6%)
Operating income	**303**	289	4.8%
Net earnings	**162**	132	22.7%
Basic net earnings per common share ($)	**0.58**	0.48	20.8%
Operating margin	**4.4%**	4.2%	
EBITDA[(2)]	**$ 455**	$ 431	5.6%
EBITDA margin[(2)]	**6.6%**	6.2%	

- Revenue decreased by $41 million, or 0.6%, to $6,872 million in the first quarter of 2011 compared to the first quarter of 2010. This decrease was primarily due to the declines in Retail sales and Financial Services revenue as described below.

(1) This report contains forward-looking information. See Forward-Looking Statements on page 4 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 sedar.com and at loblaw.ca.

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

- Operating income increased by $14 million, or 4.8%, to $303 million in the first quarter of 2011 compared to the first quarter of 2010. Operating margin was 4.4% for the first quarter of 2011 compared to 4.2% in 2010. These increases were driven by improvements in gross profit and selling, general and administrative expenses as described below. Included in consolidated operating income are the following items:
  - Incremental costs of $43 million related to investments in information technology and supply chain, which negatively impacted basic net earnings per common share by $0.11. These costs included:
    - A charge of $21 million related to changes in the distribution network, of which $16 million was incremental; and
    - A charge of $36 million related to depreciation and amortization, of which $13 million was incremental.
  - An $8 million charge related to an internal re-alignment of the business centred around the Company's two primary store formats, Discount and Conventional, which negatively impacted basic net earnings per common share by $0.02; and
  - Income related to the effect of share-based compensation net of equity forwards of $7 million (2010 – $6 million charge). The effect on basic net earnings per common share was income of $0.01 (2010 - $0.01 charge).

- Net earnings increased by $30 million or 22.7%, to $162 million in the first quarter of 2011 compared to the first quarter of 2010 due primarily to the increase in operating income, a decrease in net interest expense and other financing charges due to a net decrease in long term debt, an increase in net interest income on financial derivative instruments and an increase in interest income as a result of higher short term interest rates and lower income taxes.

The consolidated quarterly results by reportable operating segments were as follows:

Retail Results of Operations

For the periods ended March 26, 2011 and March 27, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011** **(12 weeks)**	2010 (12 weeks)	% Change
Sales	**$ 6,757**	$ 6,791	(0.5%)
Gross profit	**1,554**	1,542	0.8%
Operating income	**285**	265	7.5%
Same-store sales(decline) growth	**(0.1%)**	0.3%	
Gross profit	**23.0%**	22.7%	
Operating margin	**4.2%**	3.9%	

- In the first quarter of 2011, the following factors explain the major components in the change in Retail sales over the same period in the prior year:
  - Sales growth in food was flat;
  - Sales in drugstore declined marginally, negatively impacted by deflation due to generic prescription drug regulation changes in Ontario and other provinces and the impact of new generic versions of certain prescription drugs;
  - Sales in apparel declined marginally due in part to cooler weather and the timing of the Easter holiday;
  - Sales in other general merchandise declined moderately due to continued reductions in square footage and optimization of range and assortment of products;
  - Gas bar sales growth was strong as a result of higher retail gas prices and modest volume growth; and
  - The Company experienced modest average quarterly internal food price inflation during the first quarter of 2011, which was lower than the average quarterly national food price inflation of 2.5% (2010 – 0.7%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). In the first quarter of 2010, the Company experienced marginal average quarterly internal food price deflation. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

- Gross profit increased by $12 million to $1,554 million (23.0% of sales) in the first quarter of 2011 compared to the first quarter of 2010 (22.7% of sales). This increase was mainly attributable to improved control label profitability, improved shrink, the shift of pharmaceutical professional allowances from selling, general and administrative expenses to gross profit as legislated and a stronger Canadian dollar. The timing of Easter vendor programs and increased transportation costs partially offset these improvements.

- Operating income increased by $20 million, or 7.5%, to $285 million in the first quarter of 2011 compared to $265 million in the first quarter of 2010. Operating margin was 4.2% for the first quarter of 2011 compared to 3.9% in 2010. This increase was due to increased gross profit, labour efficiencies, the improvement in the performance of the Company's franchise business, a stronger Canadian dollar and the impact of share based compensation net of equity forwards, partially offset by the incremental costs related to the investment in information technology and supply chain and the charge associated with the internal re-alignment of the business.

Financial Services Results of Operations

For the periods ended March 26, 2011 and March 27, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011** **(12 weeks)**	2010 (12 weeks)	% Change
Revenues	**$ 115**	$ 122	(5.7%)
Operating income	**18**	24	(25.0%)
Average quarterly net credit card receivables	**$ 1,942**	$ 1,985	(2.2%)
Credit card receivables	**1,887**	1,874	0.7%
Annualized yield on average quarterly gross credit card receivables	**12.6%**	13.3%	
Annualized credit loss rate on average quarterly gross credit card receivables	**4.6%**	6.3%	

- Revenues for the first quarter decreased by $7 million, or 5.7%, to $115 million compared to $122 million in the first quarter of 2010. The decrease was primarily driven by improved customer payment practices resulting from more stringent credit risk management policies implemented in 2009. Although these practices resulted in lower revenues, they favourably impacted the annualized credit loss rate as planned.

- Operating income decreased by $6 million or 25.0% to $18 million in the first quarter of 2011 compared to $24 million in the first quarter of 2010. This decrease was mainly due to the reduction in revenue and an increase in marketing costs, partially offset by a lower allowance for credit card losses.

The Company has adopted a new approach to releasing quarterly financial results. The Company's first, second and third quarter reports and annual Management's Discussion and Analysis, financial statements and notes will now be posted only to the Company's website at loblaw.ca and filed with the relevant Canadian securities regulators on the System for Electronic Document Analysis and Retrieval (SEDAR). The Company will continue to issue its quarterly press releases through the newswire and on loblaw.ca.

Contents

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 and changes in interest and currency exchange rates;
- 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;
- failure to realize revenue 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 and failure to comply with the legislative/regulatory environment in which the Company operates, including failure to comply with environmental laws and regulations;
- 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 share-based compensation and equity forward contracts relating to its Common Shares;
- changes in the Company's income, commodity and other tax liabilities including changes in tax laws or future assessments;
- reliance on the performance and retention of third-party service providers including those associated with the Company's supply chain and apparel business;
- public health events including those related to food safety;
- 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;
- supply and quality control issues with vendors; and

- failure by the Company to maintain appropriate documentation to support its compliance with accounting, tax or legal rules, regulations and policies.

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 this Management's Discussion and Analysis included in the Company's 2010 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 first quarter 2011 unaudited interim period condensed consolidated financial statements and the accompanying notes included in this Quarterly Report and the audited annual consolidated financial statements and the accompany notes for the year ended January 1, 2011 and the related annual MD&A included in the Company's 2010 Annual Report – Financial Review ("2010 Annual Report"). The Company's first quarter 2011 unaudited interim period condensed consolidated financial statements and the accompanying notes form part of the first annual audited consolidated financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") for the year ended December 31, 2011 and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described therein. These unaudited interim period condensed consolidated financial statements include the accounts of the Company and other entities in which the Company controls in accordance with IAS 27 "Consolidated and Separate Financial Statements" and are reported in Canadian dollars. In addition, the Company consolidates Special Purpose Entities ("SPE") in accordance with Standing Interpretations Committee Interpretation 12 "Consolidation – Special Purpose Entities", ("SIC-12") if, based on an evaluation of the substance of its relationship with the Company and the SPE's risks and rewards, the Company concludes that it controls the SPE.

A glossary of terms used throughout this Quarterly Report can be found on page 87 of the Company's 2010 Annual Report. 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; "annualized yield on average quarterly gross credit card receivables", which is defined as interest earned on credit card receivables divided by the number of days in the quarter times 365 divided by average quarterly gross credit card receivables; "annualized credit loss rate on average quarterly gross credit card receivables", which is defined as total credit card losses divided by the number of days in the quarter times 365 divided by average quarterly gross credit card receivables; and "operating working capital" which is defined as the sum of accounts receivables, inventories and prepaid expenses and other assets less trade payables and other liabilities.

The information in this MD&A is current to May 3, 2011, unless otherwise noted.

Consolidated Results of Operations

Due to the transition to IFRS effective the first quarter of 2011, all comparative figures for 2010 that were previously reported in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("CGAAP") have been restated to conform with the new standards adopted. See note 16 to the Company's first quarter 2011 unaudited interim period condensed consolidated financial statements for further information on the transition to IFRS and its impact on the Company's financial position, financial performance and cash flows.

With this transition, the Company now has two reportable operating segments:

- The **Retail** segment, which consists primarily of food and also includes drugstore, gas bars, apparel and other general merchandise; and
- The **Financial Services** segment, which includes credit card services, a retail loyalty program, insurance services, personal banking services provided by the direct banking division of a major Canadian chartered bank and telecom.

Revenue Revenue for the first quarter decreased by 0.6% to $6,872 million compared to $6,913 million in the first quarter of 2010. This decrease was primarily due to the declines in Retail sales and Financial Services revenue, as described below.

Operating Income Operating income increased by $14 million, or 4.8%, to $303 million in the first quarter of 2011 compared to the first quarter of 2010. Operating margin was 4.4% for the first quarter of 2011 compared to 4.2% in 2010. These increases were driven by improvements in gross profit and selling, general and administrative expenses as described below. Included in consolidated operating income are the following items:

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

- Incremental costs of $43 million related to investments in information technology and supply chain. These costs included:
    - A charge of $21 million related to changes in the distribution network, of which $16 million was incremental; and
    - A charge of $36 million related to depreciation and amortization, of which $13 million was incremental.
- An $8 million charge related to an internal re-alignment of the business centred around the Company's two primary store formats, Discount and Conventional; and
- Income related to the effect of share-based compensation net of equity forwards of $7 million (2010 – $6 million charge).

EBITDA(1) increased by $24 million, or 5.6%, to $455 million in the first quarter of 2011 compared to $431 million in the first quarter of 2010. EBITDA margin(1) increased in the first quarter of 2011 to 6.6% from 6.2% in the comparable period in 2010. The increases in EBITDA(1) and EBITDA margin(1) were primarily due to the increases in operating income and operating margin.

Net Interest Expense and Other Financing Charges In the first quarter of 2011, net interest expense and other financing charges decreased $14 million, or 16.1%, to $73 million from $87 million in the first quarter of 2010. The decrease was due to a net decrease in long term debt, an increase in net interest income on financial derivative instruments and an increase in interest income as a result of higher short term interest rates.

Income Taxes The effective income tax rate in the first quarter of 2011 decreased to 29.6% compared to 34.7% in 2010 primarily due to further reductions in the Federal and Ontario statutory income tax rates and a reduction of non-deductible amounts.

Net Earnings Net earnings increased by $30 million or 22.7%, to $162 million in the first quarter of 2011 compared to the first quarter of 2010. Basic net earnings per common share for the first quarter increased by $0.10, or 20.8%, to $0.58 from $0.48 in the first quarter of 2010.

In the first quarter of 2011, basic net earnings per common share were impacted by the following:

- A charge of $0.11 related to the incremental costs for the Company's investment in information technology and supply chain;
- A charge of $0.02 related to the internal re-alignment charge of the business; and
- Income of $0.01 (2010 – $0.01 charge) for the effect of share based compensation net of equity forwards.

Reportable Operating Segments

Retail

Sales Sales for the first quarter decreased by 0.5% to $6,757 million compared to $6,791 million in the first quarter of 2010.

The following factors explain the major components that influenced revenue for the first quarter of 2011 compared to the first quarter of 2010:

- Same-store sales decline of 0.1% (2010 – increase of 0.3%);
- Sales growth in food was flat;
- Sales in drugstore declined marginally, negatively impacted by deflation due to generic prescription drug regulation changes in Ontario and other provinces and the impact of new generic versions of certain prescription drugs;
- Sales in apparel declined marginally due in part to cooler weather and the timing of the Easter holiday;
- Sales in other general merchandise declined moderately due to continued reductions in square footage and optimization of range and assortment of products;
- Gas bar sales growth was strong as a result of higher retail gas prices and modest volume growth;
- The Company experienced modest average quarterly internal food price inflation during the first quarter of 2011, which was lower than the average quarterly national food price inflation of 2.5% (2010 – 0.7%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). In the first quarter of 2010, the Company experienced marginal average quarterly internal food price deflation. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- During the first quarter of 2011, 3 corporate and franchised stores were opened and 3 corporate and franchised stores were closed, resulting in no material change in square footage.

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

Gross Profit Gross profit increased by $12 million to $1,554 million (23.0% of sales) in the first quarter of 2011 compared to the first quarter of 2010 (22.7% of sales). This increase was mainly attributable to improved control label profitability, improved shrink, the shift of pharmaceutical professional allowances from selling, general and administrative expenses to gross profit as legislated and a stronger Canadian dollar. The timing of Easter vendor programs and increased transportation costs partially offset these improvements.

Operating Income Operating income increased by $20 million, or 7.5%, to $285 million in the first quarter of 2011 compared to $265 million in the first quarter of 2010. Operating margin was 4.2% for the first quarter of 2011 compared to 3.9% in 2010. This increase was due to increased gross profit, labour efficiencies, the improvement in the performance of the Company's franchise business, a stronger Canadian dollar and the impact of share based compensation net of equity forwards, partially offset by the incremental costs related to the investment in information technology and supply chain and the charge associated with the internal re-alignment of the business.

Financial Services

Revenue Revenue for the first quarter decreased by $7 million, or 5.7%, to $115 million compared to $122 million in the first quarter of 2010. The decrease was primarily driven by improved customer payment practices resulting from more stringent credit risk management policies implemented in 2009. Although these practices resulted in lower revenues, they favourably impacted the annualized credit loss rate as planned.

Operating Income Operating income decreased by $6 million or 25.0% to $18 million in the first quarter of 2011 compared to $24 million in the first quarter of 2010. This decrease was mainly due to the reduction in revenue and an increase in marketing costs, partially offset by a lower allowance for credit card losses.

Consolidated Financial Condition

Net Debt(1) As at March 26, 2011, net debt(1) was $4,807 million compared to $4,565 million as at January 1, 2011. The increase of $242 million was primarily due to the seasonal increase in operating working capital.

Financial Ratios Due to the transition to IFRS described below, rolling year ratios have only been provided for the rolling years ended March 26, 2011 and January 1, 2011.

The Company's net debt(1) to equity(1) ratio was 0.8:1 at the end of the first quarter of 2011 compared to 0.9:1 at the end of the first quarter of 2010. The decrease in this ratio was due to a decrease in net debt(1) and the increase in operating income described above. The rolling net debt(1) to EBITDA(1) ratio was 2.4 times at the end of the first quarter of 2011, compared to 2.3 times at the end of 2010. The increase in this ratio is due to a decrease in net debt(1) as described above and the increase in rolling EBITDA(1) described earlier.

The reduction in net interest expense and other financing charges and the increase in operating income as described above resulted in an improvement in the interest coverage ratio to 4.2 times at the end of the first quarter of 2011 from 3.3 times at the end of the first quarter of 2010.

The rolling year return on average net assets(1) decreased to 11.8% for the first quarter ended 2011 compared to 12.0% for the year ended January 1, 2010. This ratio decreased due to an increase in operating income which was offset by higher average net assets.

The rolling year return on average shareholder's equity for the rolling year ended March 26, 2011 was 13.0% compared to the rolling return of 12.6% for the year ended January 1, 2011. The increase in this ratio was primarily a result of the increase in rolling year net earnings.

Equity Forward Contracts As at March 26, 2011, Glenhuron Bank Limited, a wholly owned subsidiary of the Company, had equity forwards contracts to buy 1.5 million (March 27, 2010 , January 1, 2011 and January 2, 2010 – 1.5 million) of the Company's common shares at an average forward price of $56.37 (March 27, 2010 – $66.58; January 1, 2011 – $56.26, January 2, 2010 – $66.25), including $0.15 (March 27, 2010 – $10.36; January 1, 2011 – $0.04; January 2, 2010 – $10.03) per common share of interest expense. As at March 26, 2011 the cumulative interest and unrealized market loss of $27 million (March 27, 2010 – $42 million; January 1, 2011 – $24 million; January 2, 2010 – $48 million) was included in trade payables and other liabilities.

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

Liquidity and Capital Resources

Major Cash Flow Components

(millions of Canadian dollars)	2011 (12 weeks)	2010 (12 weeks)	Change
Cash flows from (used in):			
Operating activities	**$ 19**	$ 92	$ (73)
Investing activities	**73**	(178)	251
Financing activities	**(520)**	(169)	(351)

Cash Flows from Operating Activities Cash flows from operating activities for the first quarter of 2011 were $19 million, which included operating income of $303 million, depreciation and amortization of $152 million and a reduction in non-cash working capital of $390 million due to changes in trade payables and other liabilities, credit card receivables and inventory, partially offset by accounts receivable.

Cash flows from operating activities decreased by $73 million in the first quarter of 2011 to $19 million from $92 million in 2010. The quarter over quarter decrease is mainly due to the reduction in non-cash working capital, partially offset by a decrease in taxes paid, an increase in operating income and the increase in depreciation and amortization.

Cash Flows from (used in) Investing Activities Cash flows from investing activities were $73 million in the first quarter of 2011 compared to cash flows used in investing activities of $178 million in 2010. The change was primarily due to the change in short term investments, a change in security deposits of $112 million primarily as a result of the accumulation of cash of $167 million in 2010, partially offset by an increase in fixed asset purchases of $18 million.

Cash Flows used in Financing Activities Cash flows used in financing activities were $520 million in the first quarter of 2011 compared to cash flows used in financing activities of $169 million in 2010. The change in cash flows from financing activities was primarily due to the repayment of the $500 million *Eagle Credit Card Trust* Series 2006-I Notes on March 17, 2011 and the repayment of $350 million 6.50% Medium Term Notes on January 19, 2011. The cash flows used in financing activities were partially offset by the change in short term debt primarily for the issuance of $370 million of securitized credit card receivables in 2011 and the repurchase of $90 million of securitized credit card receivables in 2010. PC Bank also issued $46 million of long term debt related to Guaranteed Investment Certificates ("GICs") in the first quarter of 2011.

Post-Employment Defined Benefit Pension Plan Contributions During the first quarter of 2011, the Company contributed $25 million (2010 – $25 million) to its registered funded defined benefit pension plans. The Company expects to contribute approximately $75 million to these plans during the remainder of 2011. The actual amount paid may vary from the estimate based on actuarial valuations being completed, market performance and regulatory requirements.

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 committed 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 12 months. 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. In addition, given reasonable access to capital markets, the Company does not foresee any impediments in obtaining financing to satisfy its long term obligations.

The Company's $800 million committed credit facility, which expires in March, 2013, contains certain financial covenants with which the Company was in compliance as at March 26, 2011. In addition to cash and short term investments, this facility is the primary source of the Company's short term funding and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates**.** As at March 26, 2011 and March 27, 2010, the Company had not drawn on its committed credit facility.

PC Bank participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. PC Bank purchases receivables from and sells receivables to the independent credit card trusts from time to time depending on PC Bank's financing requirements. During the first quarter of 2011, PC Bank securitized $370 million (2010 – nil) credit card receivables and repurchased $500 million (2010 – $90 million) of co-ownership interests in the securitized receivables from independent trusts. The $500 million repurchase was related to the March 17, 2011 maturity of the five-year $500 million senior notes and subordinated notes issued by *Eagle Credit Card Trust*.

The independent credit card trusts' recourse to PC Bank's assets in excess of the securitized receivables is limited to PC Bank's excess collateral of $105 million as at March 26, 2011 (March 27, 2010 – $114 million) as well as standby letters of credit issued by the Company as at March 26, 2011 of $81 million (March 27, 2010 – $103 million) based on a portion of the securitized amount.

During the first quarter of 2011 PC Bank raised deposits of $46 million (2010 – nil) in GICs sold through independent brokers.

The credit ratings of the Company as disclosed in the 2010 Annual Report did not change in the first quarter of 2011.

Independent Funding Trusts Certain independent franchisees of the Company obtain financing through a structure involving independent funding 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 independent funding trusts are consolidated under IFRS. The gross principal amount of loans recorded in long term debt issued to the Company's independent franchisees by the independent funding trusts as at March 26, 2011 was $408 million (March 27, 2010 – $386 million, January 1, 2011 – $395 million, January 2, 2010 – $381 million). The Company has agreed to provide credit enhancement of $66 million (March 27, 2010, January 1, 2011 and 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 enables 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 will assign the loan to the Company and draw upon this standby letter of credit.

Subsequent to the end of the first quarter, one of the independent funding trusts obtained commitments from the existing syndicate of third party lenders to renew and extend the $475 million revolving committed credit facility for a 3 year period, effective May 2, 2011. Under the renewal, the Company's credit enhancement has been reduced from 15% to 10%. Other terms and conditions will remain substantially the same.

Dividends During the first quarter of 2011, the Company's Board of Directors ("Board") declared dividends of $0.21 (2010 – $0.21) per common share with a payment date of April 1, 2011 and $0.37 (2010 – $0.37) per Second Preferred Share, Series A with a payment date of April 30, 2011. Subsequent to the end of the first quarter of 2011, the Board declared a quarterly dividend of $0.21 per common share payable on July 1, 2011 and $0.37 per Second Preferred Share, Series A payable on July 31, 2011. At the time such dividends are declared, the Company identifies on its website (loblaw.ca) the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency.

Dividend Reinvestment Plan ("DRIP") During the first quarter of 2011, the Board approved the discontinuance of the DRIP after the dividend payment on April 1, 2011. Subsequent to the end of the first quarter, the Company issued 1,142,380, (2010 – 1,120,453) 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 $43 million (2010 - $41 million). Since the inception of the DRIP in 2009, approximately $330 million in total common share equity was raised.

Normal Course Issuer Bid ("NCIB") Subsequent to the first quarter of 2011, Loblaw renewed its NCIB to purchase on the Toronto Stock Exchange, or enter into equity derivatives to purchase, up to 14,096,437 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 of its common shares for cancellation in the quarter.

Off-Balance Sheet Arrangements

While the Company's independent funding trusts and securitization programs under the independent credit card trusts are no longer treated as off-balance sheet arrangements under IFRS, the standby and documentary letters of credit, guarantees, and letter of credit associated with the securitization of credit card receivables remain off balance sheet. The terms and conditions of these arrangements are described in the Company's 2010 Annual Report.

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. 2011, 2010 and 2009 are 52-week fiscal years. 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 period condensed consolidated financial statements for each of the eight most recently completed quarters. This information is prepared in accordance with IFRS except for the 2009 information which was prepared in accordance with CGAAP as indicated in the table below.

Summary of Consolidated Quarterly Results

(unaudited)	**First Quarter**		Fourth Quarter		Third Quarter		Second Quarter	
(millions of Canadian dollars except where otherwise indicated)	**2011 (12 weeks)**	**2010 (12 weeks)**	2010 (12 weeks)	2009 (12 weeks – CGAAP)	2010 (16 weeks)	2009 (16 weeks – CGAAP)	2010 (12 weeks)	2009 (12 weeks – CGAAP)
Revenue	**$ 6,872**	**$ 6,913**	$ 7,119	$ 7,311	$ 9,535	$ 9,473	$ 7,269	$ 7,233
Net earnings	**$ 162**	**$ 132**	$ 165	$ 165	$ 197	$ 189	$ 181	$ 193
Net earnings per common share								
Basic ($)	**$ 0.58**	**$ 0.48**	$ 0.59	$ 0.60	$ 0.71	$ 0.69	$ 0.65	$ 0.70
Diluted ($)	**$ 0.56**	**$ 0.45**	$ 0.58	$ 0.59	$ 0.70	$ 0.69	$ 0.63	$ 0.70
Average national food price inflation (as measured by CPI)	**2.5%**	**0.7%**	1.5%	1.6%	1.3%	4.2%	0.2%	7.4%
Retail same-store sales growth (decline)	**(0.1%)**	**0.3%**	(1.6%)	(7.8%)(1)	(0.4%)	(0.6%)	(0.3%)	2.5%

(1) As compared to a 13-week quarter in 2008

Since the second quarter of 2009, net retail square footage has increased by 0.8 million square feet to 50.7 million square feet.

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 share-based compensation net of equity forwards, costs related to the incremental investment in information technology and supply chain and internal business re-alignment charges. Earnings in the third and fourth quarters of 2009 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 reports for external purposes in accordance with 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.

There were no changes in the Company's internal control over financial reporting during the first quarter of 2011 that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

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 18 of the MD&A as well as note 25 to the Company's 2010 Annual Report. The following is an update to those risks and risk management strategies.

Enterprise Resource Planning ("ERP") and Other Systems Implementations The Company continues to undertake a major upgrade of its information technology ("IT") infrastructure. In 2010, the Company began to deploy its new ERP system. This project, along with other systems implementations planned for 2011 and beyond, is one of the largest technology infrastructure programs ever implemented by the Company and is fundamental to its long-term growth strategies. During the first quarter of 2011, the Company combined and streamlined its ERP and other significant system implementations. Completing the ERP deployment will require continued focus and significant investment. 2011 will be a critical year for the ERP implementation as the Company focuses on the roll-out to its merchandising organization and ensuring the integrity of converted data. The failure to successfully migrate from legacy systems to the ERP could negatively affect the Company's reputation, operations and its revenues and financial performance. Failure or disruption in the Company's IT systems during the implementation of the ERP or other new systems may result in a lack of relevant and reliable information to enable management to effectively achieve its strategic plan or manage the day-to-day operations of the business, causing significant disruptions to the business and potential financial losses. In addition, the failure to implement appropriate processes to support the ERP system may result in inefficiencies and duplication in current processes.

Change Management In the first quarter of 2011, the Company continued to optimize its customer offering and shopping experience by introducing a new organizational structure centred around the Company's two primary store formats, Discount and Conventional. In addition, on February 24, 2011, the Company announced the appointment of a new President who will be joining the Company in the second half of the year. Failure to properly execute the various initiatives and manage through change may increase the risk of customer dissatisfaction, which in turn could adversely affect the reputation, operations and financial performance of the Company. The failure to properly integrate several large, complex initiatives in a timely manner will adversely impact the operations of the Company. If colleagues are not able to develop and perform new roles, processes and disciplines, the Company may not always achieve the expected cost savings and other benefits of its initiatives.

Tax and Regulatory Subsequent to the end of the first quarter, the Company received a proposed reassessment from the Quebec Revenue Agency with regard to the Company's entitlement to certain previously claimed commodity tax credits. At this early stage, it is not possible to quantify the potential liability in connection with this proposed reassessment. However, a final determination of this matter could result in a material charge for the Company in future periods. The Company intends to vigorously dispute any reassessment, should it materialize.

Related Party Transactions

In addition to those related parties disclosed in the Company's 2010 Annual Report, Associated British Foods plc, the Company's post employment benefit plans and Key Management Personnel (KMP) are considered to be related parties of the Company under IFRS.

Critical Accounting Estimates

Detailed descriptions of the Company's critical accounting estimates are included in the Critical Accounting Estimates section on page 29 of the MD&A and in note 1 on page 53 to the Company's 2010 Annual Report. The following is an update to those Critical Accounting Estimates.

Allowance for Credit Card Losses The allowance for credit card losses is established to absorb probable credit losses on the aggregate exposures in the Financial Services segment credit card portfolio. This allowance is measured based upon statistical analysis of past and current performance, aging, arrears status, the level of allowance already in place and management's judgment around economic conditions and other trends specific to our customer base, including but not limited to bankruptcies. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

Fixed Assets Fixed assets are reviewed quarterly to determine any indication of impairment. The factors that most significantly influence the impairment assessments are the determination of future cash flows and fair value assessments. An impairment loss is measured as the amount by which the fixed assets carrying value exceeds the recoverable amount.

The recoverable amount is the greater of a Cash Generating Unit's ("CGU") value in use and its fair value less costs to sell.

The Company determines the value in use of its retail locations by discounting the expected cash flows that management estimates can be generated from continued use of the CGU. The process of determining the cash flows requires management to make estimates and assumptions including projected future sales, earnings and capital investment, and discount rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to the Company's Board. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

The Company determines the fair value less costs to sell of its retail locations using various assumptions, including the market rental rates for properties located within the same geographical areas as the properties being valued, highest and best use of the property for the geographical area, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates and terminal capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Post-Employment and Other Long-Term Employee Benefits The discount rate, expected long term rate of return on plan assets and expected growth rate in health care costs are assumptions used in determining the cost and accrued benefit plan obligations of the Company's post-employment and other long-term employee benefit plans. These assumptions are forward-looking and long term in nature, they are subject to uncertainty and actual results may differ materially. In accordance with IFRS, differences between actual results and the assumptions, as well as the impact of changes in the assumptions are recognized in other comprehensive income for post-employment defined benefit plans and in net earnings for other long-term employee benefit plans for the period, affecting the plan assets and the accrued benefit obligations. Although the Company believes that its assumptions are appropriate, differences in actual results or changes in the Company's assumptions may materially affect its accrued benefit plan obligations and future costs.

Goodwill and Indefinite Life Intangible Assets Goodwill and indefinite life intangible assets are assessed for impairment at least annually, and whenever there is an indication that the asset may be impaired.

An impairment loss is measured as the amount by which the CGU grouping's or indefinite life intangible asset's carrying value exceeds the recoverable amount. The recoverable amount is the greater of a CGU grouping's or indefinite life intangible asset's value in use and its fair value less costs to sell.

The Company determines the fair value of its CGU groupings and indefinite life intangible assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires management to make estimates and assumptions of a long term nature regarding discount rates, projected revenues, royalty rates and margins, as applicable, derived from past experience, actual operating results, budgets and a 5 year business plan which is approved by the Board. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Transition to IFRS

The Company has adopted IFRS for its first quarter 2011 unaudited interim period condensed consolidated financial statements. These financial statements, including the 2010 comparative figures, are prepared in accordance with IFRS and IAS 34, "Interim Financial Reporting".

During the first quarter of 2011 management finalized its IFRS accounting policy choices. These accounting policies are consistent with those disclosed in the 2010 Annual Report and have been approved by the Company's Audit Committee. In addition, the Company has finalized its unaudited opening balance sheet as well as the unaudited financial statements for each of the 2010 quarters based on these accounting policies. In the completion of our conversion to IFRS, certain preliminary unaudited figures were changed resulting in an increase in equity on the IFRS transitional balance sheet of approximately $19 million and an increase in 2010 net earnings of approximately $41 million from that previously reported in our 2010 Annual Report.

The Company has also completed changes to its internal controls over financial reporting and disclosure controls and procedures for IFRS, which included enhancement of existing controls and the design and implementation of new controls, where needed. No material change in internal controls over financial reporting or disclosure controls and procedures resulted from the adoption and implementation of IFRS.

Reconciliations prepared in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards" are provided in note 16 to the unaudited interim period condensed consolidated financial statements.

Future Accounting Standards

Financial Instruments – Disclosures On October 7 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011 and therefore the Company will apply the amendment beginning in the first quarter of 2012. The Company is currently assessing the impact of the amendment on its financial statements.

Deferred Tax – Recovery of Underlying Assets On December 20, 2010, the IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12"), that introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. The Company has elected to account for its investment properties at cost and as such does not expect the implementation of the amendment to have a significant impact on its financial statements.

Financial Instruments The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2013. The Company is currently assessing the impact of the new standard on its financial statements.

Outlook(1)

The Company continues to progress with its renewal plan while it begins to turn its focus on new opportunities for growth. In 2011, the Company remains focused on executing the plan in an uncertain market environment with expected inflationary pressures and continued competitive intensity. For the year, the Company plans to continue its investment in information technology and supply chain which will negatively impact operating income by approximately $135 million over 2010, and estimates capital expenditures for the year to be roughly $1.0 billion.

(1) To be read in conjunction with "Forward-Looking Statements" on page 4.

Additional Information

Additional information about the Company has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at sedar.com and with 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 GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and should not be construed as an alternative to other financial measures determined in accordance with GAAP.

EBITDA and EBITDA Margin The following table reconciles earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("EBITDA") to operating income, which is reconciled to GAAP net earnings measures reported in the unaudited interim period condensed consolidated statements of earnings for the twelve week periods ended March 26, 2011 and March 27, 2010. 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 revenue.

(millions of Canadian dollars)	**2011 (12 weeks)**	2010 (12 weeks)
Net earnings	**$ 162**	$ 132
Add impact of the following:		
Income taxes	**68**	70
Net interest expense and other financing charges	**73**	87
Operating income	**303**	289
Add impact of the following:		
Depreciation and amortization	**152**	142
EBITDA	**$ 455**	$ 431

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 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 and the fair value of financial derivatives. The Company believes that this measure is useful in assessing the amount of financial leverage employed.

(millions of Canadian dollars)	**As at March 26, 2011**	As at March 27, 2010	As at January 1, 2011	As at January 3, 2010
Bank indebtedness	**$ –**	$ 9	$ 10	$ 10
Short term debt	**905**	1,135	535	1,225
Long term debt due within one year	**52**	1,162	902	312
Long term debt	**5,249**	4,178	5,198	5,041
Certain other liabilities	**35**	36	35	36
Fair value of financial derivatives related to the above	**48**	57	37	58
	6,289	6,577	6,717	6,682
Less: Cash and cash equivalents	**427**	472	857	731
Short term investments	**678**	732	754	663
Security deposits	**184**	189	354	250
Fair value of financial derivatives related to the above	**193**	202	187	178
	1,482	1,595	2,152	1,822
Net debt	**$ 4,807**	$ 4,982	$ 4,565	$ 4,860

The Second Preferred Shares, Series A are classified as capital securities and are excluded from the calculation of net debt.

Net Assets The following table reconciles net assets used in the rolling year return on average net assets ratio to 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 of Canadian dollars)	**As at March 26, 2011**	As at March 27, 2010	As at January 1, 2011	As at January 3, 2010
Total assets	**$ 16,035**	$ 15,747	$ 16,841	$ 16,090
Less: Cash and cash equivalents	**427**	472	857	731
Short term investments	**678**	732	754	663
Security deposits	**184**	189	354	250
Trade payables and other liabilities	**3,048**	3,068	3,522	3,372
Net assets	**$ 11,698**	$ 11,286	$ 11,354	$ 11,074

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

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

(millions of Canadian dollars)	**As at March 26, 2011**	As at March 27, 2010	As at January 1, 2011	As at January 3, 2010
Capital securities	**$ 221**	$ 220	$ 221	$ 220
Shareholders' equity	**5,756**	5,123	5,603	5,080
Equity	**$ 5,977**	$ 5,343	$ 5,824	$ 5,300

May, 3, 2011
Toronto, Canada

Unaudited Interim Period Condensed Consolidated Financial Statements

Consolidated Statements of Earnings

Unaudited (millions of Canadian dollars except where otherwise indicated)	**March 26, 2011 (12 weeks)**	March 27, 2010 (12 weeks)
Revenue	**$ 6,872**	$ 6,913
Cost of Merchandise Inventories Sold **(note 7)**	**5,203**	5,249
Selling, General and Administrative Expenses	**1,366**	1,375
Operating Income	**303**	289
Net interest expense and other financing charges (note 3)	**73**	87
Earnings Before Income Taxes	**230**	202
Income taxes (note 4)	**68**	70
Net Earnings	**$ 162**	$ 132
Net Earnings Per Common Share ($) (note 5)		
Basic	**$ 0.58**	$ 0.48
Diluted	**$ 0.56**	$ 0.45

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

Consolidated Statements of Comprehensive Income

Unaudited (millions of Canadian dollars)	**March 26, 2011 (12 weeks)**	March 27, 2010 (12 weeks)
Net earnings	**$ 162**	$ 132
Net loss on derivatives designated as cash flow hedges	**–**	(2)
Reclassification of loss on derivatives designated as cash flow hedges to net earnings	**–**	3
	–	1
Net defined benefit plan actuarial gain (loss)	**4**	(32)
Other comprehensive income (loss)	**4**	(31)
Total Comprehensive Income	**$ 166**	$ 101

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

Consolidated Statements of Changes in Shareholders' Equity

Unaudited (millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at January 1, 2011	**1,475**	**4,122**	**1**	**5**	**5,603**
Net earnings	**–**	**162**	**–**	**–**	**162**
Other comprehensive income	**–**	**4**	**–**	**–**	**4**
Comprehensive income	**–**	**166**	**–**	**–**	**166**
Effect of share-based compensation (note 13)	**3**	**–**	**43**	**–**	**46**
Dividends declared per common share ($) – $0.21	**–**	**(59)**	**–**	**–**	**(59)**
	3	**107**	**43**	**–**	**153**
Balance at March 26, 2011	**1,478**	**4,229**	**44**	**5**	**5,756**

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

Unaudited (millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at January 3, 2010	1,308	3,771	–	1	5,080
Net earnings	–	132	–	–	132
Other comprehensive (loss) income	–	(32)	–	1	(31)
Comprehensive income	–	100	–	1	101
Dividends declared per common share ($) – $0.21	–	(58)	–	–	(58)
		42	–	1	43
Balance at March 27, 2010	1,308	3,813	–	2	5,123

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

Consolidated Balance Sheets

Unaudited (millions of Canadian dollars)	**As at March 26, 2011**	As at March 27, 2010	As at January 1, 2011	As at January 3, 2010
Assets				
Current Assets				
Cash and cash equivalents (note 6)	**$ 427**	$ 472	$ 857	$ 731
Short term investments	**678**	732	754	663
Accounts receivable	**367**	411	366	367
Credit card receivables	**1,887**	1,874	1,997	2,095
Inventories (note 7)	**1,928**	2,000	1,956	1,982
Income taxes recoverable	**–**	–	8	–
Prepaid expenses and other assets	**90**	134	83	101
Assets held for sale	**68**	57	71	56
Total Current Assets	**5,445**	5,680	6,092	5,995
Fixed Assets	**8,384**	7,788	8,377	7,815
Investment Properties	**74**	74	74	75
Goodwill and Intangible Assets	**1,026**	1,019	1,026	1,023
Deferred Income Taxes	**207**	295	227	258
Security Deposits	**184**	189	354	250
Franchise Loans Receivable	**315**	340	314	344
Other Assets	**400**	362	377	330
Total Assets	**$ 16,035**	$ 15,747	$ 16,841	$ 16,090
Liabilities				
Current Liabilities				
Bank indebtedness	**$ –**	$ 9	$ 10	$ 10
Short term debt (note 9)	**905**	1,135	535	1,225
Trade payables and other liabilities	**3,048**	3,068	3,522	3,372
Income taxes payable	**2**	36	–	42
Provisions	**63**	62	62	62
Long term debt due within one year	**52**	1,162	902	312
Total Current Liabilities	**4,070**	5,472	5,031	5,023
Provisions	**43**	45	43	44
Long Term Debt (note 10)	**5,249**	4,178	5,198	5,041
Deferred Income Taxes	**36**	26	35	27
Capital Securities	**221**	220	221	220
Other Liabilities	**660**	683	710	655
Total Liabilities	**10,279**	10,624	11,238	11,010
Shareholders' Equity				
Common Share Capital (note 11)	**1,478**	1,308	1,475	1,308
Retained Earnings	**4,229**	3,813	4,122	3,771
Contributed Surplus	**44**	–	1	–
Accumulated Other Comprehensive Income	**5**	2	5	1
Total Shareholders' Equity	**5,756**	5,123	5,603	5,080
Total Liabilities and Shareholders' Equity	**$ 16,035**	$ 15,747	$ 16,841	$ 16,090

Contingent liabilities (note 14).

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

Consolidated Cash Flow Statements

Unaudited (millions of Canadian dollars)	**March 26, 2011 (12 weeks)**	March 27, 2010 (12 weeks)
Operating Activities		
Net earnings	**$ 162**	$ 132
Income taxes	**68**	70
Net interest expense and other financing charges	**73**	87
Depreciation and amortization	**152**	142
Income taxes paid	**(41)**	(100)
Interest received	**10**	9
Change in non-cash working capital	**(390)**	(250)
Fixed assets and other related impairments	**4**	6
Other	**(19)**	(4)
Cash Flows from Operating Activities	**19**	92
Investing Activities		
Fixed asset purchases	**(155)**	(137)
Short term investments	**64**	(85)
Proceeds from fixed asset sales	**5**	13
Franchise investments and other receivables	**(1)**	(3)
Security deposits	**167**	55
Other	**(7)**	(21)
Cash Flows from (used in) Investing Activities	**73**	(178)
Financing Activities		
Bank indebtedness	**(10)**	(1)
Short term debt	**370**	(90)
Long term debt		
Issued	**57**	3
Retired	**(858)**	(1)
Interest paid	**(82)**	(80)
Common shares issued	**3**	–
Cash Flows used in Financing Activities	**(520)**	(169)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(2)**	(4)
Change in Cash and Cash Equivalents	**(430)**	(259)
Cash and Cash Equivalents, Beginning of Period	**857**	731
Cash and Cash Equivalents, End of Period	**$ 427**	$ 472

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

For the periods ended March 26, 2011 and March 27, 2010
(millions of Canadian dollars except where otherwise indicated)

Note 1: Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. Loblaw Companies Limited and its subsidiaries are together referred to in these unaudited interim period condensed consolidated financial statements as "the Company".

The Company's parent is George Weston Limited ("Weston") which owns approximately 62.8% of the Company. The Company's ultimate parent is Wittington Investments, Limited ("Wittington").

The Company has two reportable operating segments: "Retail" and "Financial Services" (see note 15).

Note 2: Significant Accounting Policies

Statement of Compliance The unaudited interim period condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein. These are the Company's first unaudited interim period condensed consolidated financial statements reported under International Financial Reporting Standards ("IFRS" or "GAAP") and IFRS 1, "First time adoption of IFRS" ("IFRS 1") has been applied. The unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company's 2010 annual financial statements. An explanation of how the transition from Canadian generally accepted accounting principles ("CGAAP") to IFRS as at January 3, 2010 ("transition date") has affected the reported financial position, financial performance and cash flows of the Company, including the mandatory exceptions and optional exemptions under IFRS 1 is provided in note 16.

These unaudited interim period condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on May 3, 2011.

Basis of Preparation The unaudited interim period condensed consolidated financial statements were prepared on a historical cost basis except for financial instruments which are valued at fair value through profit or loss. In addition, liabilities for share-based compensation arrangements accounted for as cash-settled arrangements are measured at fair value as described in note 13 and defined benefit plan assets are also recorded at fair value with the obligations related to these pension plans measured at their discounted present value.

The accounting policies set out below have been applied consistently in the preparation of the unaudited interim period condensed consolidated financial statements of all periods presented, including the presentation of the opening consolidated balance sheet as at January 3, 2010 except for certain mandatory exceptions and optional exemptions taken pursuant to IFRS 1 as described in note 16.

The unaudited interim period condensed consolidated financial statements are presented in Canadian dollars.

Basis of Consolidation The unaudited interim period condensed consolidated financial statements include the accounts of the Company and other entities that the Company controls in accordance with IAS 27 "Consolidated and Separate Financial Statements".

Special Purpose Entities ("SPE") are consolidated under Standing Interpretations Committee ("SIC") Interpretation 12 "Consolidation – Special Purpose Entities", ("SIC-12"), if, based on an evaluation of the substance of its relationship with the Company and the SPE's risks and rewards, the Company concludes that it controls the SPE. SPEs controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that results in the Company receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

Revenue Recognition Revenue includes sales, net of estimated returns, to customers through corporate stores operated by the Company, sales to and service fees from associated stores, independent account customers, financial services, and franchised stores net of sales incentives offered by the Company. The Company recognizes revenue at the time the sale is made to its customers and at the time of delivery of inventory to its associated and franchise stores.

Customer loyalty awards are accounted for as a separate component of the sales transaction in which they are granted. A portion of the consideration received in a transaction that includes the issuance of an award is deferred until the awards are ultimately redeemed. The allocation of the consideration to the award is based on an evaluation of the award's estimated fair value at the date of the transaction using the residual fair value method.

On the initial sale of a franchising arrangement, the Company offers products and services as part of a multiple deliverable arrangement which is recorded using a relative fair value approach.

Interest income on credit card loans, service fees and other revenue related to financial services are recognized on an accrual basis.

Taxation The asset and liability method of accounting is used for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the deferred income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Current and deferred taxes are charged to or credited in the statement of earnings, except when it relates to a business combination, or items charged or credited directly to equity or to other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is measured using enacted or substantively enacted income tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. A deferred tax asset is recognized for unused tax losses and credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Cash and Cash Equivalents and Bank Indebtedness Cash and cash equivalents consist of highly liquid marketable investments with an original maturity date of 90 days or less. Cash equivalents are designated at fair value through profit or loss. Bank indebtedness is classified as other financial liabilities and the carrying value approximates the fair value of this instrument.

Short Term Investments Short term investments primarily consist of government treasury bills, government-sponsored debt securities, corporate commercial paper and bank term deposits. Short term investments are designated at fair value through profit or loss.

Security Deposits Security deposits consist primarily of government treasury bills and government-sponsored debt securities. Security deposits are designated at fair value through profit or loss.

Credit Card Receivables The Company, through President's Choice Bank ("PC Bank"), a wholly owned subsidiary of the Company, has credit card receivables that are stated net of an allowance for credit losses. Interest income is recorded in revenue and interest expense is recorded in net interest expense and other financing charges using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the credit card receivable (or, where appropriate, a shorter period) to the carrying amount. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

PC Bank considers evidence of impairment losses on a portfolio basis for which losses cannot be determined on an item-by-item basis. The allowance is based upon a statistical analysis of past and current performance, the level of allowance already in place and management's judgment. The allowance for credit losses is deducted from the credit card receivables balance. Interest on the impaired asset continues to be recognized. The net credit loss experience for the year is recognized in operating income.

Periodically the Company transfers credit card receivables by selling them to independent SPEs or trusts. Due to the retention of substantially all of the risks and rewards relating to these assets the Company continues to recognize these assets in credit card receivables and the transferred receivables are accounted for as secured financing transactions. In certain scenarios the Company consolidates the SPE. The associated liabilities secured by these assets are included in either short term or long term debt based on their characteristics and are carried at amortized cost.

Inventories The Company values merchandise inventories at the lower of cost and net realizable value. Costs include the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Seasonal general merchandise and inventories at distribution centres are measured at weighted average cost. The Company uses the retail method to measure the cost of the majority of retail store inventories. Under this method, the Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling prices, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

Vendor Allowances The Company receives allowances from certain of its vendors whose products it purchases for resale. These allowances are received for a variety of buying and/or merchandising activities, including vendor programs such as volume purchase allowances, purchase discounts, listing fees and exclusivity allowances. Consideration received from a vendor is a reduction in the cost of the vendor's products or services and is recognized as a reduction in the cost of merchandise inventories sold and the related inventory when recognized in the consolidated statement of earnings and the consolidated balance sheet, respectively. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor's products. The consideration is then recognized as part of revenue or as a reduction of the cost incurred in the consolidated statement of earnings.

Fixed Assets Fixed assets are recognized and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset to prepare the asset for its intended use and capitalized borrowing costs. The commencement date for capitalization of costs occurs when the Company first incurs expenditures for the qualifying assets and undertakes the required activities to prepare the assets for their intended use.

Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the cost of these assets to their estimated residual value over their estimated useful lives. When significant parts of a fixed asset have different useful lives, they are accounted for as separate components of the asset and depreciated over their estimated useful lives. Estimated useful lives are as follows:

- Buildings – 10 to 40 years
- Equipment and fixtures – 3 to 10 years
- Building improvements – up to 10 years

Leasehold improvements are depreciated over the lesser of the lease term and their estimated useful lives. The lease term may include renewal options when an improvement is made after inception of the lease to a maximum economic life of 25 years. Fixed assets held under finance leases are depreciated over the lesser of expected useful lives, on the same basis as owned assets, or the term of the lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term in which case it would be depreciated over the life of the asset.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and are adjusted if appropriate.

Fixed assets are reviewed quarterly to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy below.

Investment Properties Investment properties are properties owned by the Company that are held to either earn rental income, for capital appreciation, or both. The Company's investment properties include single tenant properties held to earn rental income and certain multiple tenant properties. Land and buildings leased to franchisees are not accounted for as investment properties as these properties are related to the Company's operating activities.

Investment property assets are recognized at cost less accumulated depreciation and any accumulated impairment losses. The depreciation policies for investment properties are consistent with those described in the accounting policy for fixed assets.

Investment properties are reviewed quarterly to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy below.

Borrowing Costs Borrowing costs directly attributable to the acquisition, construction, or production of assets that necessarily take a substantial period of time to prepare for their intended use are capitalized to the cost of those assets, until such time as the assets are substantially ready for their intended use based on the weighted average cost of borrowing during the quarter.

Goodwill Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the fair value of the consideration transferred over the fair value of the identifiable assets acquired less the fair value of the liabilities assumed. Goodwill is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Refer to the Impairment of Non-Financial Assets policy below.

Intangible Assets Acquired intangible assets that have definite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. The Company assesses each intangible asset for legal, regulatory, contractual, competitive or other factors to determine if the useful life is definite. Intangible assets with a definite life are amortized over the related assets' estimated useful lives. Indefinite life intangible assets are measured at cost less any accumulated impairment losses. Indefinite life intangible assets are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Refer to the impairment of Non-Financial Assets policy below.

Impairment of Non-Financial Assets At each balance sheet date, the Company reviews the carrying amounts of its definite life non-financial assets, including fixed assets, investment properties, goodwill and intangible assets to determine whether there is any indication of impairment. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. If any such indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

For the purposes of reviewing definite life non-financial assets for impairment, asset groups are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit ("CGU"). As such, each retail location and each investment property has been determined to be a CGU for purposes of impairment testing.

The Company's corporate assets, which include the head office facilities and distribution centres, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum collection of CGUs to which the corporate asset can be allocated reasonably and consistently. For distribution centres, the corporate assets are allocated to the operating stores that are serviced from the distribution centre.

The recoverable amount of a CGU is the greater of its value in current use and its fair value less costs to sell. The Company determines the value in use of its retail locations by discounting the expected cash flows that management estimates can be generated from continued use of the CGU. The process of determining the cash flows requires management to make estimates and assumptions including projected future sales, earnings and capital investment, and discount rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to the Company's Board. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

The Company determines the fair value less costs to sell of its retail locations using various assumptions, including the market rental rates for properties located within the same geographical areas as the properties being valued, highest and best use of the property for the geographical area, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates and terminal capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property.

An impairment loss is recognized if the carrying amount of a CGU exceeds its recoverable amount. Impairment losses are recognized in operating income in the period in which they occur. When impairment subsequently reverses, the carrying amount of the asset is increased to the extent that the carrying value of the underlying assets does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized. Impairment reversals are recognized in operating income in the period in which they occur.

Goodwill is assessed for impairment based on the group of CGUs expected to benefit from the synergies of the business combination, and the lowest level at which management monitors the goodwill. Any potential goodwill impairment is identified by comparing the recoverable amount of the CGU grouping to which the goodwill is allocated to its carrying value. If the recoverable amount, calculated as the higher of the fair value less costs to sell and the value in use, is less than its carrying amount, an impairment loss is recognized in operating income in the period in which it occurs. Impairment losses on goodwill are not subsequently reversed if conditions change.

Any potential intangible asset impairment is identified by comparing the recoverable amount of the indefinite life intangible asset to its carrying amount. If the recoverable amount, calculated as the higher of the fair value less costs to sell and the value in use, is less than its carrying amount, an impairment loss is recognized in operating income. Impairment reversals are recognized in operating income in the period in which they occur.

Provisions Provisions are recognized when there is a legal or constructive obligation for which it is probable that a transfer of resources will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects the time value of money.

Financial Instruments Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows and benefits related from the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. Financial instruments upon initial recognition are measured at fair value and classified as either financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables or other financial liabilities. Financial instruments are included on the consolidated balance sheet and measured after initial recognition at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities, which are measured at amortized cost. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs where possible. Gains and losses on fair value through profit or loss financial assets and financial liabilities are recognized in earnings before income taxes in the period in which they are incurred. Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method.

The following classifications have been applied:

- Cash and cash equivalents, short term investments and security deposits are designated as fair value through profit or loss.
- Derivatives which are not designated in a hedge are classified at fair value through profit or loss.
- Accounts receivable, credit card receivables and franchise loans receivable are classified as loans and receivables and carried at amortized cost.
- Bank indebtedness, short term debt, long term debt, finance lease obligations, provisions, certain other liabilities and capital securities are classified as other financial liabilities.
- Other financial instruments included in trade payables and other liabilities are classified as other financial liabilities.

The Company has not classified any financial assets as held-to-maturity.

Impairment of Financial Instruments An assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the future cash flows of the financial asset or group of assets occur after initial recognition of the financial asset and the loss can be reliably measured. This assessment is done on an individual financial asset basis or on a portfolio of financial assets basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the financial instruments original effective interest rate and is recorded as an allowance for losses. If, in a subsequent period, the impairment loss decreases, the previously recognized impairment is reversed to the extent of the impairment.

Derivative Instruments Financial derivative instruments in the form of cross currency swaps, interest rate swaps and equity forwards partially offset exposure to fluctuations in foreign currency exchange rates, interest rates and the market price of the Company's common shares. Financial and non-financial derivative instruments in the form of futures contracts, option contracts and forward contracts mitigate current and anticipated exposure to fluctuations in commodity prices and foreign currency exchange rates. Policies and guidelines prohibit the use of any derivative instruments for trading or speculative purposes.

All financial derivative instruments are recorded at fair value on the consolidated balance sheet. Any embedded derivative instruments that may be identified would be separated from their host contract and recorded on the consolidated balance sheet at fair value. Fair values are based on quoted market prices where available from active markets otherwise, fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs where possible.

Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair values of the derivative instruments are recorded in net earnings unless the derivative qualifies and is effective as a hedging instrument in a designated hedging relationship.

Foreign Currency Translation The functional currency of the Company is the Canadian dollar. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at foreign currency exchange rates that approximate the rates in effect at the dates when such items are transacted.

Short-Term Employee Benefits Short-term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses. Short-term employee benefit obligations are measured on an undiscounted basis and are recognized in operating income as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible or intangible asset. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined Benefit Plans The Company has a number of contributory and non-contributory defined benefit pension plans providing pension benefits to eligible employees. These plans provide a pension based on length of service and eligible pay. The Company's net obligation in respect of defined benefits is calculated separately for each plan. Defined benefit obligations are actuarially calculated by a qualified actuary at the balance sheet date using the projected unit credit method. The actuarial valuations are determined based on management's best estimate of the discount rate, the expected long term rate of return on plan assets, the rate of compensation increase, retirement rates, termination rates, mortality rates and expected growth rate of health care costs. The discount rate used to value the defined benefit obligation for accounting purposes is based on the yield on a portfolio of Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit plan obligations. Unrecognized past service costs (see below) and the fair value of plan assets are deducted from the defined benefit obligation to arrive at the net obligation. Plan assets are measured at fair value at the balance sheet date.

Past service costs arising from plan amendments are recognized in operating income in the year that they arise to the extent that the associated benefits are fully vested. Unvested past service costs are recognized in operating income on a straight-line basis over the vesting period of the associated benefits. Actuarial gains or losses on post-employment defined benefit plans are recognized in other comprehensive income in the period in which they arise.

When the calculation results in a benefit or asset, the recognized asset is limited to the total of any unrecognized past service costs plus the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan (the "asset ceiling"). In order to calculate the present value of economic benefits, consideration is given to minimum funding requirements that apply to the plan. If it is anticipated that the Company will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements for future service, the net defined benefit asset is reduced to the amount of the asset ceiling. The effect of the asset ceiling is recognized in other comprehensive income.

When the payment in the future of minimum funding requirements related to past service would result in a net defined benefit surplus or an increase in a surplus, the minimum funding requirements are recognized as a liability to the extent that the surplus would not be fully available as a refund or a reduction in future contributions. Remeasurement of this liability is recognized in other comprehensive income in the period in which the remeasurement occurs.

In each interim reporting period, the post-employment defined benefit obligations are measured using assumptions which approximate their values at the reporting date, with the resulting actuarial gains and losses recognized in other comprehensive income.

Defined Contribution Plans The Company maintains a number of defined contribution pension plans for employees in which the Company pays fixed contributions for eligible employees into a registered plan and has no further obligation to pay any further amounts. The amount of the pension benefit is based on accumulated Company contributions, and in some cases, employee contributions and investment gains and losses. The costs of benefits for defined contribution plans are expensed as contributions are due.

Multi-Employer Pension Plans The Company participates in multi-employer pension plans which are accounted for as defined contribution plans. The Company's responsibility to make contributions to these plans is established pursuant to its collective agreements. The Company does not administer these plans, but rather, the administration and the investment of their assets are controlled by a board of trustees consisting of an equal number of union and employer representatives. The contributions made by the Company to multi-employer plans are expensed as contributions are due.

Other Long Term Employee Benefit Plans The Company sponsors a long term disability plan that is classified as a long term defined benefit arrangement. As the amount of the long term disability benefit does not depend on length of service, the obligation is recognized when an event occurs that gives rise to an obligation to make payments. The Company also offers other long term employee benefit plans to employees who are on long term disability leave. These benefit plans are non-contributory and include health care, life insurance and dental benefits. The amount of other long term employee benefits is actuarially calculated by a qualified actuary at the balance sheet date using the projected unit credit method. Under this method, the benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate used to value the long term employee benefit obligation is based on the yield on a portfolio of Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the long term employee benefit plan obligations. Actuarial gains and losses and past service costs are recognized immediately in operating income in the period in which they arise.

Termination Benefits Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. Benefits payable are discounted to their present value when the effect of the time value of money is material.

Cash Settled Stock Option Plan Prior to February 22, 2011, stock options allowed for settlement in shares or in the share appreciation value in cash at the option of the employee. These options were accounted for as cash-settled stock options and vested in tranches over a three-to-five year vesting period; accordingly, each tranche was valued separately using a Black-Scholes option pricing model. The fair value of the amount payable to employees in respect of these plans was re-measured at each balance sheet date, and a compensation expense was recognized in operating income over the vesting period for each tranche with a corresponding change in the liability. Forfeitures were estimated at the grant date and were revised to reflect a change in expected or actual forfeitures.

Equity Settled Stock Option Plan Commencing February 22, 2011, stock options allow for settlement only in shares. These grants are accounted for as equity-settled stock options and vest in tranches over a three-to-five year vesting period. The fair value of each tranche of options granted to employees is measured separately at the grant date using a Black-Scholes option pricing model, and the grant date fair value net of expected forfeitures at the grant date is recognized as an expense in operating income over the vesting period of each tranche, with a corresponding increase in contributed surplus. During the vesting period the amount recognized as an expense is adjusted to reflect revised expectations about the number of options expected to vest, such that the amount ultimately recognized as an expense is based on the number of awards that meet the vesting conditions. Upon exercise of vested options, the amount recognized in contributed surplus for the award plus the cash received upon exercise is recognized as an increase in share capital.

Restricted Share Unit ("RSU") Plan RSU grants entitle employees to a cash payment equal to the weighted average price of a Loblaw common share after the end of a performance period of up to 3 years following the date of the award. The Company recognizes a compensation expense in operating income for each RSU granted equal to the market value of a Loblaw common share less the net present value of the expected dividend stream at the date on which RSUs are awarded to each participant. The compensation expense is prorated over the performance period reflecting changes in the market value of a Loblaw common share until the end of the performance period. Forfeitures are estimated at the grant date and are revised to reflect a change in expected or actual forfeitures.

Employee Share Ownership Plan ("ESOP") The Company maintains an ESOP which allows employees to acquire the Company's common shares through regular payroll deductions of up to 5% of their gross regular earnings. The Company contributes an additional 25% of each employee's contribution to the plan and recognizes a compensation cost in operating income when the contribution is made.

Director Deferred Share Unit ("DSU") Plan Members of the Board, who are not management of the Company, may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs. The Company recognizes an expense for each DSU granted equal to the market value of a Loblaw common share at the date on which DSUs are awarded with a corresponding offset to equity. After the grant date, the DSU expense is not re-measured for subsequent changes in the market value of a Loblaw common share. The DSU's are settled in shares upon termination of Board service.

Executive Deferred Share Unit ("EDSU") Plan Under this plan, eligible executives may elect to defer up to 100% of the Short Term Incentive Plan ("STIP") earned in any year into the EDSU Plan, subject to an overall cap of three times the executive's base salary. Each EDSU entitles the holder to receive the cash equivalent of a Loblaw common share. The number of EDSUs granted in respect of any year will be determined by dividing the STIP compensation that is subject to the EDSU plan election by the market value of the Company's common shares on the date the STIP compensation would otherwise be payable. After the grant date, any change in fair value is recognized in operating income in the period of the change with a corresponding offset to the liability.

Critical Accounting Judgments, Estimates and Assumptions The preparation of the unaudited interim period condensed consolidated financial statements requires management to make various judgments, estimates and assumptions in applying the Company's accounting policies which have an effect on the reported amounts and disclosures made in the unaudited interim period condensed consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances.

Material estimates and assumptions are made with respect to establishing depreciation and amortization periods, the valuation of credit card receivables and inventories, goodwill and indefinite life intangible assets, income and other taxes, fixed asset impairment and parameters used in the measurement of employee future benefits. These estimations depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the unaudited interim period condensed consolidated financial statements. Illiquid credit markets, volatile equity, foreign currency, and 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

Financial Instruments – Disclosures On October 7, 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011 and therefore the Company will apply the amendment in the first quarter of 2012. The Company is currently assessing the impact of the amendment on its financial statement disclosures.

Deferred Tax – Recovery of Underlying Assets On December 20, 2010, the IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12"), that introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. The Company has elected to account for its investment properties at cost and as such does not expect the implementation of the amendment to have a significant impact on its financial statements.

Financial Instruments The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2013. The Company is currently assessing the impact of the new standard on its financial statements.

Note 3. Net Interest Expense and Other Financing Charges

(millions of Canadian dollars)	**March 26, 2011 (12 weeks)**	March 27, 2010 (12 weeks)
Interest on long term debt	**$ 63**	$ 69
Interest cost on defined benefit obligations	**21**	21
Interest on borrowings related to credit card receivables(1)	**13**	11
Interest expense on Franchise Trust II loans	**4**	4
Interest expense on financial derivative instruments	**–**	2
Dividends on capital securities	**3**	3
Interest expense and other financing charges	**104**	110
Expected return on pension plan assets	**(19)**	(18)
Accretion income	**(4)**	(4)
Interest income on financial derivative instruments	**(6)**	–
Short term interest income	**(2)**	(1)
Interest income	**(31)**	(23)
Net interest expense and other financing charges	**$ 73**	$ 87

(1) Represents total interest expense attributable to the financial services segment.

Note 4. Income Taxes

The effective income tax rate in the first quarter of 2011 decreased to 29.6% compared to 34.7% in 2010 primarily due to further reductions in the Federal and Ontario statutory income tax rates and a reduction of non-deductible amounts.

Note 5. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**March 26, 2011 (12 weeks)**	March 27, 2010 (12 weeks)
Net earnings for basic earnings per share	**$ 162**	$ 132
Dividends on capital securities	**3**	–
Cash-settled share-based compensation	**(3)**	–
Impact of equity forwards	**–**	(6)
Net earnings for diluted earnings per share	**$ 162**	$ 126
Weighted average common shares outstanding (in millions)	**280.6**	276.2
Dilutive effect of share-based compensation (in millions)	**0.8**	0.3
Dilutive effect of equity forwards (in millions)	**–**	1.2
Dilutive effect of capital securities (in millions)	**6.2**	–
Dilutive effect of dividend reinvestment plan (in millions)	**0.4**	0.5
Dilutive effect of certain other liabilities (in millions)	**0.9**	1.0
Diluted weighted average common shares outstanding (in millions)	**288.9**	279.2
Basic net earnings per common share ($)	**$ 0.58**	$ 0.48
Diluted net earnings per common share ($)	**$ 0.56**	$ 0.45

For the first quarter of 2011, 11,952,448 (2010 – 15,763,171) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share, as they were anti-dilutive.

Note 6. Cash and Cash Equivalents

The components of cash and cash equivalents were as follows:

(millions of Canadian dollars)	**As at March 26, 2011**	As at March 27, 2010	As at January 1, 2011	As at January 3, 2010
Cash	**$ 68**	$ 21	$ 75	$ 173
Cash equivalents:				
Bankers' acceptances	**7**	263	240	296
Government treasury bills	**164**	57	224	72
Bank term deposits	**129**	67	200	45
Corporate commercial paper	**19**	35	113	116
Other	**40**	29	5	29
Cash and cash equivalents	**$ 427**	$ 472	$ 857	$ 731

As at March 26, 2011, USD $1,045 million (March 27, 2010 – USD $956 million, January 1, 2011 – USD $1,033 million, January 3, 2010 – USD $945 million) was included in cash and cash equivalents, short term investments and security deposits. In the first quarter of 2011, the Company recognized an unrealized foreign currency exchange loss of $18 million (2010 – $25 million) as a result of translating its United States dollar denominated cash and cash equivalents, short term investments and security deposits, of which a loss of $2 million (2010 – $4 million) related to cash and cash equivalents. The resulting loss (2010 – loss) on cash and cash equivalents, short term investments and security deposits was partially offset in operating income by a gain of $18 million (2010 – $25 million) on the cross currency swaps.

Note 7. Inventories

Cost of merchandise inventory entirely relates to the Retail segment. For inventories recorded as at March 26, 2011, the Company recorded $14 million (March 27, 2010 – $9 million) as an expense for the write-down of inventories below cost to net realizable value. The write-down is included in cost of merchandise inventories sold in the consolidated statements of earnings. There were no reversals of previously recorded write-downs of inventories during the periods ended March 26, 2011 and March 27, 2010.

Note 8. Financing of Credit Card Receivables

PC Bank participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to independent trusts pursuant to co-ownership agreements. PC Bank purchases receivables from and sells receivables to the trusts from time to time depending on PC Bank's financing requirements. During the first quarter of 2011, PC Bank securitized $370 million (2010 – nil) credit card receivables and repurchased $500 million (2010 – $90 million) of co-ownership interests in the securitized receivables from independent trusts. The $500 million repurchase was related to the March 17, 2011 maturity of five-year $500 million senior and subordinated notes issued by *Eagle Credit Card Trust*.

Due to the retention of substantially all of the risks and rewards on these assets, the Company, through PC Bank, continues to recognize these assets within credit card receivables and the transfers are accounted for as secured financing transactions. The associated liability secured by these assets is included in short term debt and long term debt (see notes 9 and 10) and is carried at amortized cost.

Note 9. Short Term Debt

As at March 26, 2011, $905 million (March 27, 2010 – $1,135 million; January 1, 2011 – $535 million; January 3, 2010 – $1,225 million) was outstanding relating to the liability related to independent credit card trusts (see note 8). The independent trusts' recourse to PC Bank's assets in excess of the securitized receivables is limited to PC Bank's excess collateral of $105 million as at March 26, 2011 (March 27, 2010 – $114 million) as well as standby letters of credit issued by the Company as at March 26, 2011 of $81 million (March 27, 2010 – $103 million) based on a portion of the securitized amount.

As at March 26, 2011 and March 27, 2010, the Company had not drawn on the $800 million committed credit facility described in note 14 to the Company's 2010 Annual Report Financial Review.

Note 10. Long Term Debt

During the first quarter of 2011, a $350 million 6.50% medium term note due January 19, 2011 matured and was repaid.

During the first quarter of 2011, the $500 million senior and subordinated notes due March 17, 2011 issued by *Eagle Credit Card Trust* matured and were repaid.

Subsequent to the end of the first quarter, the independent funding trust obtained commitments from the existing syndicate of third party lenders to renew and extend the $475 million revolving committed credit facility for a 3-year period, effective May 2, 2011. The Company's credit enhancement will also be reduced from 15% to 10% as a result of the renewal. Other terms and conditions will remain substantially the same.

In 2008, the Company entered into fixed cross currency swaps to exchange $296 million Canadian dollars to $300 million USD which mature by 2015 and were partially designated as a cash flow hedge of the Company's USD private placement notes. In the first quarter of 2011, the designated swap was no longer classified as a cash flow hedge and as a result, the fair value changes will be recorded in operating income. Amounts remaining in accumulated other comprehensive income will be reclassified to net earnings as the hedged debt matures.

Note 11. Common Share Capital

At the end of the first quarter of 2011, the Company's outstanding common share capital was comprised of common shares, an unlimited number of which were authorized and 280,653,139 (March 27, 2010 – 276,188,258; January 1, 2011 – 280,578,130; January 3, 2010 – 276,188,258) were issued and outstanding.

Dividends ($) During the first quarter of 2011, the Company's Board declared dividends of $0.21 (2010 – $0.21) per common share with a payment date of April 1, 2011 and $0.37 (2010 – $0.37) per Second Preferred Shares, Series A with a payment date of April 30, 2011. For financial statement presentation purposes, second preferred share dividends of $3 million (2010 – $3 million) are included as a component of net interest expense and other financing charges in the consolidated statements of earnings (see note 3). Subsequent to the end of the first quarter, the Board declared a quarterly dividend of $0.21 per common share payable July 1, 2011, and $0.37 per Second Preferred Share, Series A, payable July 31, 2011.

Dividend Reinvestment Plan ("DRIP") During the first quarter of 2011, the Board approved the discontinuance of the DRIP after the dividend payment on April 1, 2011 when approximately $330 million in common share equity was raised through the program as planned. Subsequent to the first quarter of 2011, the Company issued 1,142,380 (2010 –1,120,453) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in incremental equity to the Company of approximately $43 million (2010 – $41 million).

Normal Course Issuer Bid ("NCIB") Subsequent to the first quarter of 2011, Loblaw renewed its NCIB to purchase on the Toronto Stock Exchange, or enter into equity derivatives to purchase, up to 14,096,437 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 of its common shares for cancellation in the quarter.

Note 12. Post-Employment and Other Long Term Employee Benefits

The post-employment cost recognized in earnings before income taxes was $35 million (2010 – $30 million) for the first quarter of 2011. The post-employment benefit cost included costs for the Company's post-employment defined benefit plans, defined contribution pension plans and multi-employer pension plans. The other long term employee benefits cost recognized in earnings before income taxes was $6 million (2010 - $4 million), which included costs for the Company's long term disability plan. Post-employment and other long term employee benefit costs of $2 million (2010 - $3 million) was included in net interest expense and other financing charges in the first quarter of 2011. Actuarial gains before tax for post-employment benefits of $6 million (2010 – losses of $43 million) were recognized in other comprehensive income.

Note 13. Share-Based Compensation

The Company's net share-based compensation expense recognized in operating income related to its stock option and RSU plans, including Glenhuron Bank Limited's ("Glenhuron"), a wholly owned subsidiary of the Company, equity forwards was:

(millions of Canadian dollars)	**March 26, 2011 (12 weeks)**	March 27, 2010 (12 weeks)
Stock option plan (income) expense	**$ (2)**	$ 11
Equity forwards expense (income)	**3**	(6)
RSU plan (income) expense	**(8)**	1
Net share-based compensation (income) expense	**$ (7)**	$ 6

Stock Option Plan Commencing February 22, 2011, the Company amended its stock option plan whereby the right to receive a cash payment in lieu of exercising an option for shares was removed. As a result, $42 million previously recorded in trade payables and other liabilities and other liabilities was reclassified to contributed surplus.

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

Number of Options	**March 26, 2011**	March 27, 2010
Outstanding options, beginning of period	**9,320,865**	9,207,816
Granted	**3,095,267**	2,478,570
Exercised	**(75,009)**	(299,780)
Forfeited	**(256,361)**	(853,171)
Expired	**–**	(698,172)
Outstanding options, end of period	**12,084,762**	9,835,263
Share appreciation value paid (millions of Canadian dollars)	**$ –**	$ 2

3,095,267 (2010 – 2,478,570) stock options were granted in the first quarter of 2011 at an exercise price of $39.27 (2010 – $36.35) and a fair value of $25 million (2010 – $19 million). In addition, in the first quarter of 2011, the Company issued 75,009 common shares on the exercise of stock options and received cash consideration of $3 million.

The assumptions used to measure the fair value of options granted during the first quarter of 2011 under the Black-Scholes model at the grant date were as follows:

	March 26, 2011
Expected dividend yield	**2.1%**
Expected share price volatility	**22.2% – 24.5%**
Risk-free interest rate	**2.6% – 2.9%**
Expected life of options	**4.4 – 6.4 years**

For 2010, the assumptions used to measure fair value of cash-settled options under the Black-Scholes model at each balance sheet date were as follows:

	March 27, 2010	January 1, 2011	January 3, 2010
Expected dividend yield	2.2%	2.1%	2.3%
Expected share price volatility	16.7% – 29.2%	16.0% – 27.0%	21.9% – 30.5%
Risk-free interest rate	0.4% – 3.0%	0.7% – 2.6%	0.5% – 3.0%
Expected life of options	0.5 – 6.4 years	0.2 – 6.4 years	0.6 – 6.4 years
Weighted average exercise price	$38.28	$38.56	$40.14

The expected dividend yield is estimated based on the annual dividend prior to the balance sheet date and the closing share price as at the balance sheet date.

The expected share price volatility is estimated based on the Company's historical volatility over a period consistent with the expected life of the options.

The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the reporting date for a term to maturity equal to the expected life of the options.

The effect of expected exercise of options prior to expiry is incorporated into the weighted averaged expected life of the options, which is based on historical experience and general option holder behaviour.

Estimated forfeiture rates are incorporated into the measurement of fair value. The forfeiture rate applied during the quarter was 16.2% (March 27, 2010 – 14.6%; January 1, 2011 – 16.2%; January 3, 2010 – 14.6%).

(millions of Canadian dollars)	As at March 26, 2011	As at March 27, 2010	As at January 1, 2011	As at January 3, 2010
Carrying amount of stock options:				
Trade payables and other liabilities	**$ –**	$ 24	$ 30	$ 16
Other liabilities	**–**	7	16	6
Contributed surplus	**43**	–	–	–
	$ 43	$ 31	$ 46	$ 22

Equity Forward Contracts A summary of Glenhuron's equity forward contracts is as follows:

(millions of Canadian dollars unless otherwise indicated)	As at March 26, 2011	As at March 27, 2010	As at January 1, 2011	As at January 3, 2010
Outstanding contracts (in millions)	**1.5**	1.5	1.5	1.5
Average forward price per share ($)	**$ 56.37**	$ 66.58	$ 56.26	$ 66.25
Interest expense per share ($)	**$ 0.15**	$ 10.36	$ 0.04	$ 10.03
Interest and unrealized market loss recorded in trade payables and other liabilities	**$ 27**	$ 42	$ 24	$ 48

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

Number of Awards	March 26, 2011 (12 weeks)	March 27, 2010 (12 weeks)
RSUs, beginning of period	**1,045,346**	973,351
Granted	**347,754**	371,256
Settled	**(268,331)**	(163,692)
Forfeited	**(20,461)**	(83,005)
RSUs, end of period	**1,104,308**	1,097,910
RSUs, settled (millions of Canadian dollars)	**$ 10**	$ 6

(millions of Canadian dollars)	As at March 26, 2011	As at March 27, 2010	As at January 1, 2011	As at January 3, 2010
Carrying amount of RSU liability recorded in:				
Trade payables and other liabilities	**$ 11**	$ 7	$ 12	$ 7
Other liabilities	**4**	6	12	9
	$ 15	$ 13	$ 24	$ 16
Intrinsic value of vested RSUs	**$ 16**	$ 15	$ 26	$ 18

Note 14. Contingent Liabilities

The Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business including product liability, labour and employment, regulatory and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital and commodity taxes and as a result of these audits may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the unaudited interim period condensed consolidated financial statements.

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.

Tax and Regulatory Subsequent to the end of the first quarter, the Company received a proposed reassessment from the Quebec Revenue Agency with regard to the Company's entitlement to certain previously claimed commodity tax credits. At this early stage, it is not possible to quantify the potential liability in connection with this proposed reassessment. However, a final determination of this matter could result in a material charge for the Company in future periods. The Company intends to vigorously dispute any reassessment, should it materialize.

Note 15. Segment Information

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

- The **Retail** segment, which consists primarily of food and also includes drugstore, gas bars, apparel and other general merchandise; and
- The **Financial Services** segment, which includes credit card services, a retail loyalty program, insurance services, personal banking services, which are provided by the direct banking division of a major Canadian chartered bank and telecom.

The Company's chief operating decision maker evaluates segment performance on the basis of operating income, as reported to internal management, on a periodic basis. This performance measure is used as it is considered to be the most relevant in evaluating the results of the segments relative to other entities that operate within these industries.

Segment results and assets include items directly attributable to a segment as well as items that can be allocated on a reasonable basis. There are varying levels of integration between the Retail and Financial Services segments. This integration includes shared expenses relating to the Company's brands, loyalty program, store displays and certain administrative services. Intersegment transactions are accounted for at the transaction amount as if those transactions were with external parties.

Information regarding the operations of each reportable operating segment is included below.

(millions of Canadian dollars)	**March 26, 2011 (12 weeks)**	March 27, 2010 (12 weeks)
Revenue		
Retail	**$ 6,757**	$ 6,791
Financial services(1)	**115**	122
Consolidated	**$ 6,872**	$ 6,913

(1) Included in financial services revenue is $60 (March 27, 2010 - $65) of interest income.

(millions of Canadian dollars)	**March 26, 2011 (12 weeks)**	March 27, 2010 (12 weeks)
Depreciation and Amortization		
Retail	**$ 151**	$ 142
Financial services	**1**	–
Consolidated	**$ 152**	$ 142

(millions of Canadian dollars)	**March 26, 2011 (12 weeks)**	March 27, 2010 (12 weeks)
Operating Income		
Retail	**$ 285**	$ 265
Financial services	**18**	24
Consolidated	**$ 303**	$ 289

(millions of Canadian dollars)	**As at March 26, 2011**	As at March 27, 2010	As at January 1, 2011	As at January 3, 2010
Total Assets				
Retail	**$ 14,043**	$ 13,761	$ 14,569	$ 13,886
Financial services	**1,992**	1,986	2,272	2,204
Consolidated	**$ 16,035**	$ 15,747	$ 16,841	$ 16,090

(millions of Canadian dollars)	**As at March 26, 2011**	As at March 27, 2010
Additions to Fixed Assets and Goodwill		
Retail	**$ 154**	$ 136
Financial services	**1**	1
Consolidated	**$ 155**	$ 137

Note 16. Transition to IFRS

The Company's audited annual consolidated financial statements for the year ended December 31, 2011 will be the first audited annual consolidated financial statements that will be prepared in accordance with the requirements of IFRS including the application of IFRS 1.

The significant accounting policies described in note 2 have been applied in preparing the unaudited interim period condensed consolidated financial statements for the period ended March 26, 2011, the comparative information for the period ended March 27, 2010, the financial statements for the year ended January 1, 2011, and the preparation of the opening IFRS balance sheet at January 3, 2010.

In preparing its opening IFRS balance sheet at January 3, 2010, comparative information for the period ended March 27, 2010 and financial statements for the year ended January 1, 2011, the Company adjusted amounts related to prior period balances. The Company determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position and financial performance and cash flows is set out in the following reconciliations and the explanatory notes that accompany the reconciliations. Reconciliations of the consolidated balance sheets, consolidated statements of net earnings and consolidated statements of comprehensive income for the respective periods noted begin on page 53. Changes to cash flows were not material as a result of the conversion to IFRS.
IFRS 1 requires an entity to reconcile equity, net earnings and comprehensive income from CGAAP to IFRS for prior periods. The following represents the reconciliations for the respective periods noted for equity, net earnings and comprehensive income.

Reconciliation of Equity

(millions of Canadian dollars)	Explanatory Notes	As at January 3, 2010	As at March 27, 2010	As at January 1, 2011
Total Equity - CGAAP		$ 6,273	$ 6,347	$ 6,880
Differences increasing (decreasing) reported shareholders' equity				
Minority interest presentation	a	31	27	41
Share-based payments	b	(6)	(4)	(2)
Fixed assets	c	(58)	(58)	(71)
Leases	d	(27)	(30)	(31)
Employee benefits	e	(305)	(331)	(370)
Borrowing costs	f	(199)	(203)	(216)
Consolidations	g	(79)	(79)	(68)
Impairment of assets	h	(187)	(186)	(146)
Provisions	i	(18)	(17)	(15)
Financial instruments	j	(331)	(327)	(374)
Customer loyalty programs	k	(14)	(16)	(25)
Total Equity – IFRS		$ 5,080	$ 5,123	$ 5,603

Reconciliation of Net Earnings

(millions of Canadian dollars)	Explanatory Notes	For the periods ended March 27, 2010 (12 weeks)	January 1, 2011 (52 weeks)
Net Earnings - CGAAP		$ 137	$ 681
Differences increasing (decreasing) reported net earnings			
Minority interest presentation	a	(4)	18
Share-based payments	b	2	3
Fixed assets	c	–	(13)
Leases	d	(3)	(4)
Employee benefits	e	6	25
Borrowing costs	f	(4)	(17)
Consolidations	g	–	3
Impairment of assets	h	1	41
Provisions	i	1	3
Financial instruments	j	(2)	(54)
Customer loyalty programs	k	(2)	(11)
Net Earnings - IFRS		$ 132	$ 675

Reconciliation of Comprehensive Income

(millions of Canadian dollars)	Explanatory Notes	For the periods ended March 27, 2010 (12 weeks)	January 1, 2011 (52 weeks)
Comprehensive Income - CGAAP		$ 132	$ 674
Differences increasing (decreasing) reported comprehensive income			
Differences in net earnings		(5)	(6)
Available-for-sale financial assets		–	(1)
Unrealized cash flow hedges	j	6	12
Actuarial gains (losses) on pension plans, net of tax	e	(32)	(90)
Comprehensive Income – IFRS		$ 101	$ 589

IFRS 1 - First-Time Adoption of IFRS IFRS 1 requires retroactive application for all IFRS standards effective at the reporting date except for certain mandatory exceptions from retrospective application that are relevant to the Company, or optional exemptions from retrospective application that were elected by the Company. Accordingly, these unaudited interim period condensed consolidated financial statements have been prepared based on the accounting policies described in note 2. The applicable mandatory exceptions and optional exemptions from retrospective application are described in this section, and the impact of these exceptions and exemptions and all other adjustments arising from IFRS policy choices and other requirements are described further in the "Explanatory notes on reconciliations of equity, net earnings and comprehensive income" section below.

Mandatory Exceptions IFRS 1 prescribes mandatory exceptions to the retrospective application requirements of IFRS. The following exceptions apply to the Company:

Estimates Estimates made in accordance with IFRS at transition date, and in the comparative period of the first audited annual IFRS financial statements, shall remain consistent with those determined under CGAAP with adjustments made only to reflect any differences in accounting policies. Under IFRS 1, the use of hindsight is not permitted to adjust estimates made in the past under CGAAP that were based on the information that was available at the time the estimate was determined. Any additional estimates that are required under IFRS, that were not required under CGAAP, are based on the information and conditions that exist at the transition date and in the comparative period of the first audited annual IFRS financial statements.

Hedge Accounting The designation of a hedging relationship cannot be made retrospectively. In order for a hedging relationship to qualify for hedge accounting at the transition date, the relationship must have been fully designated and documented as effective at the transaction date in accordance with CGAAP, and that designation and documentation must be updated in accordance with IAS 39 at the transition date to IFRS. Except as described in the section below, the Company's hedging relationships were fully documented and designated at the transaction dates under CGAAP and satisfied the hedge accounting criteria under IFRS at the transition date.

Derecognition of Financial Assets and Financial Liabilities The derecognition requirements under IFRS are applied prospectively for transactions occurring on or after transition date. Accordingly, any derecognition of non-derivative financial assets or non-derivative financial liabilities in accordance with CGAAP as a result of transactions occurring prior to the transition date, are not required to be recognized again on transition to IFRS.

Optional Exemptions In addition to the mandatory exceptions listed above, the Company has elected to apply the following optional exemptions under IFRS 1. Where applicable, the quantitative impact of these exemptions is included in the "Explanatory notes for reconciliation of equity, net earnings and comprehensive income" section below:

IFRS 2, "Share-Based Payment" The Company has elected to not apply the requirements of IFRS 2 retrospectively to liabilities for cash-settled awards that were settled prior to the transition date, and to equity-settled awards that vested prior to the transition date.

IFRS 3, "Business Combinations" ("IFRS 3") The Company has elected to not apply the requirements of IFRS 3 retrospectively to business combinations that occurred prior to the transition date. Under the business combinations exemption, the carrying amounts of the assets acquired and liabilities assumed under CGAAP at the date of the acquisition became their deemed carrying amounts under IFRS at that date.

Notwithstanding this exemption, the Company was required at the transition date, to evaluate whether the assets acquired and liabilities assumed meet the recognition criteria in the relevant IFRS, and whether there are any assets acquired or liabilities assumed that were not recognized under CGAAP for which recognition would be required under IFRS. The requirements of IFRS were then applied to the assets acquired and liabilities from the date of acquisition to the transition date. The Company applied these requirements, which resulted in no change to the carrying value of goodwill generated from business combinations occurring prior to the transition date. In addition, under the business combinations exemption, the Company tested goodwill for impairment at the transition date and determined that there was no impairment of the carrying value of goodwill as of that date.

IAS 19, "Employee Benefits" The Company has elected to recognize on the transition date all cumulative unamortized actuarial gains and losses for all post-employment defined benefit plans which were previously deferred under CGAAP in opening retained earnings.

IAS 23, "Borrowing Costs" The Company has elected not to apply the requirements of IAS 23 retrospectively and will eliminate all previously capitalized interest costs as at the transition date through opening retained earnings. The Company will capitalize borrowing costs for qualifying assets for which the commencement date for capitalization is on or after the transition date.

IAS 39 "Financial Instruments: Recognition and Measurement" The Company has elected to designate, as at the transition date, certain short term investments previously designated in a hedging relationship as at fair value through profit or loss.

Explanatory Notes for Reconciliations of Equity, Net Earnings, Comprehensive Income and Balance Sheet Items

a. Changes in Presentation

Investment Property Under IFRS, properties held to earn rental income or for capital appreciation, or both, are presented separately from fixed assets as investment property. Accordingly, properties that met the definition of investment property amounting to $74, $74 and $75, net of impairment, as at March 27, 2010, January 1, 2011 and January 3, 2010, respectively, were reclassified from fixed assets to investment property in the consolidated balance sheet.

Income Taxes IFRS requires deferred tax assets and liabilities to be presented in the balance sheet as non-current assets and liabilities. As a result, current future income tax assets of $42, $39 and $38 were reclassified to non-current deferred tax assets as at March 27, 2010, January 1, 2011 and January 3, 2010, respectively. As part of the adoption of IFRS, the term "future income taxes" has been replaced by the term "deferred income taxes".

Provisions Under IFRS, current and long-term provisions are accounted for and disclosed separately from accounts payable and accrued liabilities and other liabilities. Provisions were reclassified from accounts payable and accrued liabilities and other liabilities to current provisions of $57, $62 and $56 and long-term provisions of $24, $22 and $23 as at March 27, 2010, January 1, 2011 and January 3, 2010, respectively.

Minority Interest Under IFRS, minority interest is referred to as non-controlling interest and will be presented as a component of equity instead of as a liability. On the statement of earnings, minority interests will be presented as an allocation of net earnings rather than as a deduction in the calculation of net earnings.

Consolidated Cash Flow Statement The Company has chosen to separately present interest and dividends received and paid on the cash flow statement.

b. IFRS 2, "Share-Based Payment"

(i) Cash-settled share-based payments

Prior to February 22, 2011, the Company maintained various cash-settled share-based payment arrangements. Under both IFRS and CGAAP, liabilities for cash-settled share-based payment awards are measured at the grant date and are remeasured at each reporting date until the settlement date. However, the Company measured the liability for cash-settled awards at intrinsic value under CGAAP, whereas IFRS requires the liability to be measured at fair value. Under IFRS, the related liability is adjusted to reflect the fair value of the outstanding cash-settled share-based payments.

(ii) Awards subject to graded vesting and forfeitures

Under IFRS, for share-based payment awards with graded vesting, each tranche of the award is valued separately. Under CGAAP, the value of these awards was determined for each grant as a whole. Additionally, under IFRS, an estimate of the impact of forfeitures is calculated at the grant date and is revised if subsequent information indicates that it is appropriate to do so. Under CGAAP the Company followed a policy of recognizing forfeitures as they occurred.

As a result of the changes described above, the Company's liabilities as at March 27, 2010, January 1, 2011 and January 3, 2010 and net earnings in the period ended March 27, 2010 and in the year ended January 1, 2011 were higher under IFRS compared to CGAAP.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1, 2011
Operating income	$ 3	$ 6
Income taxes	$ 1	$ 3
Net earnings	$ 2	$ 3

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	January 3, 2010	As at March 27, 2010	January 1, 2011
Deferred income tax assets	$ 3	$ 2	$ –
Trade payables and other liabilities	$ 14	$ 25	$ 25
Other liabilities	$ (5)	$ (19)	$ (23)
Retained earnings	$ (6)	$ (4)	$ (3)
Contributed surplus	$ –	$ –	$ 1

c. IAS 16, "Property, Plant and Equipment"

(i) Component accounting and derecognition of replaced parts

Under IFRS, when a fixed asset comprises of individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting). In addition, under IFRS, when an individual part of a fixed asset is replaced, the carrying amount of the replacement part is capitalized and the carrying amount of the replaced part is derecognized. Under CGAAP, the Company did not apply component accounting to the degree required by IFRS, and the Company did not derecognize the carrying value of replaced parts.

(ii) Depreciation of site dismantling and restoration costs

Under IFRS, when the cost of land includes costs for site dismantling and restoration, this portion of the land is depreciated over the period of time in which the benefits will be obtained. Under CGAAP, costs were not depreciated.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1 , 2011
Operating income	$ –	$ (18)
Income taxes	$ –	$ (5)
Net earnings	$ –	$ (13)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	January 3, 2010	As at March 27, 2010	January 1, 2011
Fixed assets	$ (67)	$ (67)	$ (85)
Deferred income tax assets	$ 7	$ 7	$ 12
Deferred income tax liabilities	$ (2)	$ (2)	$ (2)
Retained earnings	$ (58)	$ (58)	$ (71)

d. IAS 17, "Leases" ("IAS 17")

The principles in IAS 17 underlying the classification and recognition of leases as finance leases (referred to as capital leases under CGAAP) or operating leases are consistent with CGAAP although there are certain differences in the application of the requirements. IFRS provides additional indicators of a finance lease that were not provided under CGAAP.

(i) Land and Building Leases

Both CGAAP and IFRS consider the leasehold interests in land and building separately for the purpose of classification of leases; however IFRS requires the allocation of minimum lease payments between the land and building elements of a lease to be in proportion to the relative fair values of the leasehold interests in the land and building. Under CGAAP, the allocation is based on the fair value of the land and building.

(ii) Sale and Leaseback Transactions

In addition, IFRS permits the immediate recognition of gains and losses on sale leaseback transactions which result in an operating lease, provided the transaction is established at fair value. Under CGAAP, gains and losses are deferred and amortized in proportion to the lease payments over the lease term, unless the asset sold in the sale leaseback transaction is impaired in which case the loss is recognized immediately.

In addition to the above, upon implementation the Company recorded additional total assets and liabilities of $50 million and $61 million, respectively, with a corresponding impact to shareholders' equity of $11 million related to immaterial unrecorded capital leases from prior periods. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1 , 2011
Operating income	$ (1)	$ 9
Net interest expense and other financing charges	$ 3	$ 14
Income taxes	$ (1)	$ (1)
Net earnings	$ (3)	$ (4)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	January 3, 2010	As at March 27, 2010	January 1, 2011
Fixed assets	$ 109	$ 101	$ 139
Deferred income tax assets	$ 3	$ 4	$ 4
Trade payables and other liabilities	$ (1)	$ –	$ (1)
Long term debt due within one year	$ 5	$ 5	$ 8
Long term debt	$ 143	$ 138	$ 175
Deferred income tax liabilities	$ (6)	$ (6)	$ (6)
Other liabilities	$ (2)	$ (2)	$ (2)
Retained earnings	$ (27)	$ (30)	$ (31)

e. IAS 19, "Employee Benefits"

(i) Actuarial gains and losses for defined benefit plans

Under IFRS, the Company recognizes actuarial gains and losses for defined benefit post-employment benefit plans in other comprehensive income in the period in which they arise, and the recognized actuarial gains and losses are presented in retained earnings. In addition, the Company recognizes actuarial gains and losses for other-long term employee benefits immediately in net earnings. Under CGAAP, actuarial gains and losses for post-employment defined benefit plans were deferred and were subject to amortization under the 'corridor method', and actuarial gains and losses for other-long term employee benefits were deferred and were amortized over a period that was linked to the type of benefit, which generally was three years.

As a result of retrospective application of these accounting policies, at the transition date, all previously unrecognized actuarial gains and losses under CGAAP were recognized by decreasing opening retained earnings.

For post-employment defined benefit plans, the unrecognized actuarial gains and losses exceeding the corridor method that were recognized in net earnings under CGAAP were reversed, and all actuarial gains and losses arising in the period were recognized in other comprehensive income.

For other long-term employee benefits, the actuarial gains and losses arising in the period that were deferred under CGAAP were recognized in net earnings.

In addition, upon implementation the Company recorded additional total assets and liabilities of $14 million and $52 million, respectively, with a corresponding impact to shareholders' equity of $38 million related to immaterial adjustments of prior period balances. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

(ii) Past service cost for defined benefit plans

Under IFRS, past service cost arising from benefit improvements is recognized on a straight-line basis over the vesting period until the benefits become vested or, if the benefits vest immediately, the expense is recognized immediately in net earnings.

Under CGAAP, the Company amortized past service costs on a straight-line basis over the expected average remaining service period of active employees under the plan, which is a longer period than the vesting period.

For unrecognized past service cost at the transition date that related to vested benefits, the unrecognized amount was recognized as an adjustment to decrease opening retained earnings. In addition, the amortization of past service cost for benefits that were vested at the transition date was reversed under IFRS.

For unrecognized past service cost at the transition date that related to unvested benefits, an adjustment was recorded to decrease the unrecognized amount that would have existed had the IFRS policy always been applied. In addition, the amortization of past service cost in net earnings was increased to reflect the amortization of the unrecognized amount over the shorter vesting period.

(iii) Measurement date

Under CGAAP, the Company's policy was to measure its defined benefit obligations and related plan assets at September 30 of each year. IFRS requires that the defined benefit obligation and the fair value of plan assets be determined with sufficient regularity, such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date. As a result, the Company measured its defined benefit obligations and plan assets at the transition date and at the end of the comparative annual period.

(iv) Attribution of post-employment health and dental benefits

The Company offers post-employment medical benefits, including health and dental benefits, for which employees are required to meet certain eligibility requirements, such as a specified number of consecutive years of service and or continuing to work until a specified age. Under CGAAP, the Company recognized an obligation and expense from the date of hire, and the obligation and expense were recognized on a straight-line basis until the eligibility criteria were met.

Under IFRS, the Company begins recognizing an obligation and expense when service first leads to benefits under the plan, and the obligation and expense are recognized on a straight-line basis until the eligibility criteria are met. The date when service first leads to benefits may be later than the date of hire, resulting in attribution of the obligation at a later date under IFRS and recognition of the obligation and expense over a shorter period. The defined benefit obligation as of January 3, 2010 reflects this change, with the resulting decrease in the defined benefit obligation being recognized in opening retained earnings.

(v) Asset ceiling and recognition of additional minimum liability

The Company has certain funded post-employment defined benefit plans for which the fair value of plan assets exceeds the defined benefit obligation. Under both CGAAP and IFRS, recognition of the net defined benefit asset is limited to the present value of the future economic benefits that the Company expects to realize from refunds from the plan or reductions in future contributions (the "asset ceiling").

The methodology for calculating the asset ceiling differs under IFRS, and in general, the asset ceiling is lower under IFRS than under CGAAP. In addition, the Company recognizes changes in the asset ceiling under IFRS in other comprehensive income, whereas under CGAAP, changes in the asset ceiling were recognized in net earnings.

Under IFRS, when the Company has an obligation to make future contributions into plans in respect of services already received, a liability is recognized to the extent that the contributions will increase an existing net defined benefit asset (surplus) or will result in a net defined benefit asset (surplus) in the future, and the benefit of the surplus or expected future surplus will not be fully available as a refund from the plan or a reduction in future contributions. The Company recognizes changes in the additional minimum liability under IFRS in other comprehensive income. No such liability is recognized under CGAAP.

As a result of the above requirements, at January 3, 2010, the Company recognized a valuation allowance and an additional minimum liability, with the corresponding adjustments recognized in opening retained earnings.

For the year ended January 1, 2011, under IFRS the Company recognized an increase in the valuation allowance which was recognized in other comprehensive income. The Company reversed the change in the valuation that was recognized in net earnings under CGAAP, resulting in an increase in net earnings of that amount. In addition, at January 1, 2011, the Company recognized an increase in the additional minimum liability, and the change in the liability was recognized in other comprehensive income.

The impacts arising from the changes described above are summarized as follows:

Consolidated Statements of Net Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1 , 2011
Operating income	$ 12	$ 47
Net interest expense and other financing charges	$ 3	$ 13
Income taxes	$ 3	$ 9
Net earnings	$ 6	$ 25

Consolidated Statements of Comprehensive Income

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1 , 2011
Other comprehensive income, net of income taxes	$ (32)	$ (90)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	January 3, 2010	As at March 27, 2010	January 1, 2011
Deferred income taxes assets	$ 93	$ 101	$ 113
Other assets	$ (308)	$ (311)	$ (350)
Deferred income taxes liabilities	$ (14)	$ (15)	$ (17)
Other liabilities	$ 104	$ 136	$ 150
Retained earnings	$ (305)	$ (331)	$ (370)

f. IAS 23, "Borrowing Costs"

The Company capitalized interest as part of the cost of qualifying assets under CGAAP; however, the capitalization methodology under CGAAP was not the same as that under IFRS.

As indicated in the "First-Time Adoption of IFRS" section above, the Company has elected to apply the requirements of IAS 23 prospectively from the transition date. As a result, the Company derecognized the carrying amount of capitalized interest under CGAAP for qualifying assets to which IAS 23 has not been applied retrospectively. As such, the Company capitalizes borrowing costs for qualifying assets for which the commencement date for capitalization is on or after the transition date.

The impact arising from the change described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1 , 2011
Operating income	$ –	$ 1
Net Interest expense and other financing charges	$ 5	$ 21
Income taxes	$ (1)	$ (3)
Net earnings	$ (4)	$ (17)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	January 3, 2010	As at March 27, 2010	January 1, 2011
Fixed assets	$ (239)	$ (244)	$ (259)
Deferred income tax assets	$ 19	$ 20	$ 22
Deferred income tax liabilities	$ (21)	$ (21)	$ (21)
Retained earnings	$ (199)	$ (203)	$ (216)

g. IAS 27, "Consolidated and Separate Financial Statements" and Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" ("SIC-12")

Consolidation and deconsolidation Under IAS 27 and SIC-12, consolidation is assessed based on the control model and IFRS does not include the concept of a variable interest entity. Accordingly, the Company is no longer required to consolidate certain independent franchisees and other entities subject to warehouse and distribution service agreements that were previously consolidated under CGAAP pursuant to the requirements of Accounting Guideline 15, "Consolidation of Variable Interest Entities". The independent funding trust through which franchisees obtain financing and Eagle Trust, the independent credit card trust that finances certain PC Bank credit card receivables, are subject to consolidation under IFRS based on the indicators of control in SIC-12. As a result, the Company was required to re-measure the initial consideration received from each independent franchisee in the form of a loan receivable to exclude the benefit of the credit enhancement provided to the independent funding trust by the Company. The consolidation of Eagle Trust had the effect of decreasing net earnings in the period ended March 27, 2010 and in the year ended January 1, 2011. In addition, upon implementation the Company recorded additional total assets and liabilities of $39 million and $117 million, respectively, with a corresponding impact to shareholders' equity of $78 million related to immaterial adjustments of prior period balances. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

The impact arising from the change described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1 , 2011
Operating income	$ 12	$ 45
Net Interest expense and other financing charges	$ 12	$ 47
Income taxes	$ –	$ (5)
Net earnings	$ –	$ 3

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at January 3, 2010	March 27, 2010	January 1, 2011
Cash and cash equivalents	$ (45)	$ (32)	$ (75)
Short term investments	$ 49	$ 34	$ 19
Accounts receivable	$ 91	$ 89	$ 118
Credit card receivables	$ 500	$ 500	$ 1,100
Inventories	$ (130)	$ (150)	$ (158)
Income taxes recoverable	$ –	$ –	$ 6
Prepaid expenses and other assets	$ 9	$ 2	$ 2
Fixed assets	$ (162)	$ (168)	$ (196)
Goodwill and intangible assets	$ (3)	$ (3)	$ (3)
Deferred income tax assets	$ 43	$ 42	$ 39
Franchise loans receivable	$ 386	$ 389	$ 399
Other assets	$ 39	$ 26	$ 94
Bank indebtedness	$ 8	$ 8	$ 7
Trade payables and other liabilities	$ 126	$ 102	$ 114
Income taxes payable	$ 1	$ 1	$ –
Provisions	$ 2	$ 2	$ 1
Long term debt due within one year	$ (36)	$ 459	$ 461
Long term debt	$ 736	$ 220	$ 810
Other liabilities	$ 10	$ 8	$ 3
Deferred income tax liabilities	$ 9	$ 8	$ 17
Minority interests	$ (31)	$ (27)	$ (41)
Retained earnings	$ (48)	$ (52)	$ (27)

h. IAS 36, "Impairment of Assets"

IFRS requires that assets be tested for impairment at the level of a CGU, which is defined as the smallest group of assets that generate independent cash inflows. Under IFRS, the Company has determined that the predominant CGU is an individual retail location. Under CGAAP, definite life assets were grouped together in asset groups defined as the lowest level of assets and liabilities for which identifiable cash flows were largely independent of the cash flows of other assets and liabilities. As a result, under this test when stores were largely dependent on each other, the stores were grouped together by primary market areas.

As at the transition date, the Company reviewed its tangible and intangible assets with definite useful lives to determine whether there were indicators that these assets or CGUs were impaired or whether there were indications necessitating a reversal of impairments previously recorded. An impairment review under the IFRS methodology was also performed for the period ended March 27, 2010 and for the year ended January 1, 2011.

The methodology under IFRS to establish whether an impairment loss should be recognized is based on whether the recoverable amount of the individual asset or CGU is less than the carrying amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. Under IFRS, value in use is based on discounted cash flows. Under CGAAP impairment was evaluated using a two-step process whereby the recoverable amount was first assessed on an undiscounted basis. If the recoverable amount was less than its carrying value, then the impairment loss measured and recognized based on the fair value of the asset or asset group.

The methodology under IFRS to establish whether an impairment loss should be recognized on goodwill and indefinite life intangible assets is described in note 2. The application of IFRS on the transition date did not have an impact on the CGAAP carrying amount of the Company's goodwill and indefinite life intangible assets.

In addition, IFRS permits the reversal of an impairment loss recognized in prior periods for assets other than goodwill. CGAAP did not permit these reversals.

The impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1, 2011
Operating income	$ 2	$ 54
Net Interest expense and other financing charges	$ –	$ –
Income taxes	$ 1	$ 13
Net earnings	$ 1	$ 41

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	January 3, 2010	As at March 27, 2010	January 1, 2011
Assets held for sale	$ –	$ –	$ (2)
Fixed assets	$ (240)	$ (238)	$ (184)
Investment properties	$ (15)	$ (15)	$ (15)
Deferred income tax asset	$ 39	$ 38	$ 31
Deferred income tax liabilities	$ (29)	$ (29)	$ (24)
Retained earnings	$ (187)	$ (186)	$ (146)

i. IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37")

(i) Change in measurement basis

The guidance related to the recognition of provisions under IAS 37 contains certain differences in terminology, recognition requirements and basis of measurement. Accordingly, due to changes in the discount rate as required under IFRS, an adjustment related to the measurement of decommissioning liabilities, referred to as asset retirement obligations under CGAAP, was recognized on transition.

(ii) Onerous contracts

IFRS also has requirements with respect to the recognition of provisions for onerous contracts which are not specifically addressed in CGAAP except for certain onerous arrangements arising from a business combination. Consistent with CGAAP, future operating losses are not recognized as a liability since they do not result from a past transaction; however, a provision for an onerous contract is recognized under IFRS if the unavoidable costs under the contract exceed the benefits the Company will derive from it.

Accordingly, an additional provision for onerous lease contracts was recorded for certain leased properties at January 3, 2010. This change had the effect of increasing net earnings for the period ended March 27, 2010 and for the year ended January 1, 2011, as any expenses related to these properties that were recognized under CGAAP were offset against the provision that was recognized on transition to IFRS.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1, 2011
Operating income	$ 1	$ 5
Net Interest expense and other financing charges	$ –	$ –
Income taxes	$ –	$ 2
Net earnings	$ 1	$ 3

Consolidated Balance Sheets

Increase (Decrease)	As at		
(millions of Canadian dollars)	January 3, 2010	March 27, 2010	January 1, 2011
Fixed assets	$ 1	$ 1	$ 1
Deferred income taxes	$ 3	$ 3	$ 2
Provisions	$ 25	$ 24	$ 20
Deferred income tax liability	$ (3)	$ (3)	$ (2)
Retained earnings	$ (18)	$ (17)	$ (15)

j. IAS 39, "Financial Instruments: Recognition and Measurement" and IAS 18, "Revenue" ("IAS 18")

(i) Franchise Relationships

As a result of the Company no longer consolidating certain independent franchisees the Company was required to evaluate the sale of each franchise arrangement under IAS 18 at its inception. Based on the guidance in IAS 18, the Company concluded that each franchise arrangement contains separately identifiable components which were required to be measured at fair value. The impact of this requirement was that the fair value of certain consideration was less than the amounts recorded at inception.

The Company recognized and evaluated these additional financial assets and financial liabilities in accordance with IAS 39, which requires application retrospectively to the inception of each arrangement. The Company's evaluation identified events that provide objective evidence that the cash flows associated with certain of these financial assets are such that the fair value was impaired. As a result, upon implementation of IFRS, the Company recorded a decrease in certain financial assets and a corresponding decrease to shareholders' equity.

(ii) Hedging Relationships

Historically the Company has entered into cross-currency and interest rate swaps, which were designated to be in a cash flow hedging relationship under CGAAP. The method of assessing hedge effectiveness used under CGAAP did not qualify these instruments for hedge accounting under IFRS and accordingly the Company elected to discontinue hedge accounting at the transition date. This resulted in a transitional reclassification from accumulated other comprehensive income to retained earnings. Subsequent changes in fair value will be recorded in the consolidated statement of earnings. The discontinuance of the hedging relationship had the effect of decreasing net earnings in the period ended March 27, 2010 and in the year ended January 1, 2011.

(iii) Derecognition of Credit Card Receivables

IFRS contains different criteria than CGAAP for derecognition of financial assets and requires an evaluation of the extent to which an entity retains the risks and rewards of ownership as well as control over the transferred assets. Under CGAAP, the sale of credit card receivables to certain independent credit card trusts administered by major Canadian banks qualified for sale treatment pursuant to the criteria defined in Accounting Guideline 12, "Transfers of Receivables". Given the revolving nature of the these assets and the fact that substantially all the risks and rewards of ownership as defined in IAS 39 are retained by the Company, these financial assets do not qualify for derecognition under IFRS and therefore are recognized on the consolidated balance sheets.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1, 2011
Operating income	$ 3	$ (56)
Net Interest expense and other financing charges	$ (4)	$ (15)
Income taxes	$ 9	$ 13
Net earnings	$ (2)	$ (54)

Consolidated Statements of Comprehensive Income

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1, 2011
Other comprehensive income, net of income taxes	$ 6	$ 11

Consolidated Balance Sheets

Increase (Decrease)		As at	
(millions of Canadian dollars)	January 3, 2010	March 27, 2010	January 1, 2011
Accounts receivable	$ (94)	$ (89)	$ (96)
Credit card receivables	$ 1,192	$ 1,108	$ 517
Prepaid expenses and other assets	$ –	$ –	$ 1
Deferred income tax assets	$ 54	$ 48	$ 43
Franchise loans receivable	$ (42)	$ (49)	$ (85)
Other assets	$ (151)	$ (154)	$ (154)
Trade payables and other liabilities	$ (9)	$ (18)	$ (5)
Income taxes payable	$ –	$ 1	$ –
Short term debt	$ 1,225	$ 1,135	$ 535
Other liabilities	$ 74	$ 73	$ 70
Retained earnings(1)	$ (315)	$ (317)	$ (369)
Accumulated other comprehensive income(1)	$ (16)	$ (10)	$ (5)

(1) Total equity impact is ($374) at January 1, 2011 (March 27, 2010 – ($327); January 3, 2010 – ($331)).

k. International Financial Reporting Interpretations Committee 13, "Customer Loyalty Programs" ("IFRIC 13")

IFRIC 13 requires the fair value of loyalty programs to be recognized as a component of the related sales transaction, such that a portion of the revenue from the initial sales transaction in which the awards are granted is deferred. Under CGAAP, the Company recognized the net cost of the program in operating expenses. Accordingly, the Company has recorded an adjustment to defer a portion of the revenue for the initial sales transaction in which awards were granted and remain outstanding, based on the fair value of the awards granted. The Company has elected to allocate the fair value of awards granted using the residual fair value method.

The impact arising from the change described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended March 27, 2010	52 Weeks Ended January 1, 2011
Revenue	$ (31)	$ (126)
Selling, general and administrative expenses	$ (28)	$ (111)
Operating income	$ (3)	$ (15)
Income taxes	$ (1)	$ (4)
Net earnings	$ (2)	$ (11)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	January 3, 2010	As at March 27, 2010	January 1, 2011
Accounts receivable	$ (1)	$ (1)	$ –
Deferred income tax assets	$ 6	$ 7	$ 10
Trade payables and other liabilities	$ 19	$ 22	$ 35
Retained earnings	$ (14)	$ (16)	$ (25)

Reconciliation of Consolidated Balance Sheets

(millions of Canadian dollars)				As at January 3, 2010
Accounts	**CGAAP Balance**	**IFRS Reclassifications**	**IFRS Adjustments**	**IFRS Balance**
Assets				
Current Assets				
Cash and cash equivalents	$ 776	$ –	$ (45)	$ 731
Short term investments	614	–	49	663
Accounts receivable	774	(403)	(4)	367
Credit card receivables	–	403	1,692	2,095
Inventories	2,112	–	(130)	1,982
Future income taxes	38	(38)	–	–
Prepaid expenses and other assets	92	–	9	101
Assets held for sale	–	56	–	56
Total Current Assets	4,406	18	1,571	5,995
Fixed Assets	8,559	(146)	(598)	7,815
Investment Properties	–	90	(15)	75
Goodwill and Intangible Assets	1,026	–	(3)	1,023
Deferred Income Taxes	–	(12)	270	258
Security Deposits	250	–	–	250
Franchise Loans Receivable	–	–	344	344
Other Assets	750	–	(420)	330
Total Assets	$ 14,991	(50)	$ 1,149	$ 16,090
Liabilities				
Current Liabilities				
Bank indebtedness	$ 2	$ –	$ 8	$ 10
Short term debt	–	–	1,225	1,225
Trade payables and other liabilities	3,279	(56)	149	3,372
Income taxes payable	41	–	1	42
Provisions	–	56	6	62
Long term debt due within one year	343	–	(31)	312
Total Current Liabilities	3,665	–	1,358	5,023
Provisions	–	23	21	44
Long Term Debt	4,162	–	879	5,041
Deferred Income Taxes	143	(50)	(66)	27
Capital Securities	220	–	–	220
Other Liabilities	497	(23)	181	655
Minority Interest	31	(31)	–	–
Total Liabilities	8,718	(81)	2,373	$ 11,010
Shareholders' Equity				
Common Share Capital	1,308	–	–	1,308
Retained Earnings	4,948	–	(1,177)	3,771
Contributed Surplus	–	–	–	–
Accumulated Other Comprehensive Income	17	–	(16)	1
Non-controlling Interest	–	31	(31)	–
Total Shareholders' Equity	6,273	31	(1,224)	5,080
Total Liabilities and Shareholders' Equity	$ 14,991	$ (50)	$ 1,149	$ 16,090

Consolidated Statements of Earnings

(millions of Canadian dollars)				For the period ended March 27, 2010
Accounts	**CGAAP Balance**	**IFRS Reclassifications**	**IFRS Adjustments**	**IFRS Balance**
Revenue	$ 6,926	$ –	$ (13)	$ 6,913
Cost of Merchandise Inventories Sold	5,206	–	43	5,249
Operating Expenses				
Selling, general and administrative expenses	1,308	152	(85)	1,375
Depreciation and amortization	152	(152)	–	–
	1,460	–	(85)	1,375
Operating Income	260	–	29	289
Interest expense and other financing charges	68	–	19	87
Earnings Before Income Taxes and Minority Interest	192	–	10	202
Income Taxes	59	–	11	70
Net Earnings Before Minority Interest	133	–	(1)	132
Minority Interest	(4)	4	–	–
Net Earnings	$ 137	$ (4)	$ (1)	$ 132
Net Earnings Attributable to:				
Shareholders of the Company			$ (5)	$ 132
Non-controlling interests		$ (4)	$ 4	$ –
Net Earnings Per Common Share ($) (note 5)				
Basic	$ 0.50	$ –	$ (0.02)	$ 0.48
Diluted	$ 0.49	$ –	$ (0.04)	$ 0.45

Consolidated Statements of Comprehensive Income

(millions of Canadian dollars)				For the period ended March 27, 2010
Accounts	**CGAAP Balance**	**IFRS Reclassifications**	**IFRS Adjustments**	**IFRS Balance**
Net earnings	$ 137	$ (4)	$ (1)	$ 132
Other comprehensive income				
Net unrealized (loss) gain on available-for-sale financial assets	(4)	–	4	–
Reclassification of loss (gain) on available for-sale financial assets to net earnings	4	–	(4)	–
	–	–	–	–
Net gain on derivative instruments designated as cash flow hedges	(2)	–	–	(2)
Reclassification of loss (gain) on derivative instruments designated as cash flow hedges to net earnings	(3)	–	6	3
	(5)	–	6	1
Actuarial gains/losses on defined benefit plans			(32)	(32)
Other comprehensive (loss) income	(5)	–	(26)	(31)
Total Comprehensive Income	$ 132	$ (4)	$ (27)	$ 101
Total Comprehensive Income Attributable to:				
Shareholders of the Company	$ –	$ –	$ (31)	$ 101
Non-controlling interests	$ –	$ (4)	$ 4	$ –

Reconciliation of Consolidated Balance Sheets

(millions of Canadian dollars)				As at March 27, 2010
Accounts	**CGAAP Balance**	**IFRS Reclassification**	**IFRS Adjustments**	**IFRS Balance**
Assets				
Current Assets				
Cash and cash equivalents	$ 504	$ –	$ (32)	$ 472
Short term investments	698	–	34	732
Accounts receivable	678	(266)	(1)	411
Credit card receivables	–	266	1,608	1,874
Inventories	2,150	–	(150)	2,000
Future income taxes	42	(42)	–	–
Prepaid expenses and other assets	132	–	2	134
Assets held for sale	–	57	–	57
Total Current Assets	4,204	15	1,461	5,680
Fixed Assets	8,549	(146)	(615)	7,788
Investment Properties	–	89	(15)	74
Goodwill and Intangible Assets	1,022	–	(3)	1,019
Deferred Income Taxes	–	23	272	295
Security Deposits	–	189	–	189
Franchise Loans Receivable	–	–	340	340
Other Assets	990	(189)	(439)	362
Total Assets	$ 14,765	$ (19)	$ 1,001	$ 15,747
Liabilities				
Current Liabilities				
Bank indebtedness	$ 1	$ –	$ 8	$ 9
Short term debt	–	–	1,135	1,135
Trade payables and other liabilities	2,995	(58)	131	3,068
Income taxes payable	34	–	2	36
Provisions	–	57	5	62
Long term debt due within one year	698	–	464	1,162
Total Current Liabilities	3,728	(1)	1,745	5,472
Provisions	–	24	21	45
Long Term Debt	3,820	–	358	4,178
Deferred Income Taxes	113	(19)	(68)	26
Capital Securities	220	–	–	220
Other Liabilities	510	(23)	196	683
Minority Interest	27	(27)	–	–
Total Liabilities	8,418	(46)	2,252	10,624
Shareholders' Equity				
Common Share Capital	1,308	–	–	1,308
Retained Earnings	5,027	–	(1,214)	3,813
Contributed Surplus	–	–	–	–
Accumulated Other Comprehensive Income	12	–	(10)	2
Non-controlling Interest	–	27	(27)	–
Total Shareholders' Equity	6,347	27	(1,251)	5,123
Total Liabilities and Shareholders' Equity	$ 14,765	$ (19)	$ 1,001	$ 15,747

Consolidated Statements of Earnings

(millions of Canadian dollars)				For the year ended January 1, 2011
Accounts	**CGAAP Balance**	**IFRS Reclassifications**	**IFRS Adjustments**	**IFRS Balance**
Revenue	$ 30,997	$ –	$ (161)	$ 30,836
Cost of Merchandise Inventories Sold	23,393	–	141	23,534
Operating Expenses				
Selling, general and administrative expenses	5,680	655	(380)	5,955
Depreciation and amortization	655	(655)	–	–
	6,335	–	(380)	5,955
Operating Income	1,269	–	78	1,347
Interest expense and other financing charges	273	–	80	353
Earnings Before Income Taxes and Minority Interest	996	–	(2)	994
Income Taxes	297	–	22	319
Net Earnings Before Minority Interest	699	–	(24)	675
Minority Interest	18	(18)	–	–
Net Earnings	$ 681	$ 18	$ (24)	$ 675
Net Earnings Attributable to:				
Shareholders of the Company	$ –	$ –	$ (6)	$ 675
Non-controlling Interests	$ –	$ 18	$ (18)	$ –
Net Earnings Per Common Share ($)				
Basic	$ 2.45	$ –	$ (0.02)	$ 2.43
Diluted	$ 2.44	$ –	$ (0.06)	$ 2.38

Consolidated Statements of Comprehensive Income

(millions of Canadian dollars)				For the year ended January 1, 2011
Accounts	**CGAAP Balance**	**IFRS Reclassifications**	**IFRS Adjustments**	**IFRS Balance**
Net earnings	$ 681	$ 18	$ (24)	$ 675
Other comprehensive income				
Net unrealized (loss) gain on available-for-sale financial assets	(12)	–	12	–
Reclassification of loss (gain) on available for-sale financial assets to net earnings	13	–	(13)	–
	1	–	(1)	–
Net gain (loss) on derivative instruments designated as cash flow hedges	1	–	(3)	(2)
Reclassification of loss (gain) on derivative instruments designated as cash flow hedges to net earnings	(9)	–	15	6
	(8)	–	12	4
Actuarial losses on defined benefit plans	–	–	(90)	(90)
Other comprehensive (loss) income	(7)	–	(79)	(86)
Total Comprehensive Income	$ 674	$ 18	$ (103)	$ 589
Total Comprehensive Income Attributable to:				
Shareholders of the Company	$ –	$ –	$ (85)	$ 589
Non-controlling Interests	$ –	$ 18	$ (18)	$ –

Reconciliation of Consolidated Balance Sheets

(millions of Canadian dollars)				As at January 1, 2011
Accounts	**CGAAP Balance**	**IFRS Reclassification**	**IFRS Adjustments**	**IFRS Balance**
Assets				
Current Assets				
Cash and cash equivalents	$ 932	$ –	$ (75)	$ 857
Short term investments	735	–	19	754
Accounts receivable	724	(380)	22	366
Credit card receivables	–	380	1,617	1,997
Inventories	2,114	–	(158)	1,956
Income taxes	2	–	6	8
Future income taxes	39	(39)	–	–
Prepaid expenses and other assets	80	–	3	83
Assets held for sale	–	73	(2)	71
Total Current Assets	4,626	34	1,432	6,092
Fixed Assets	9,123	(162)	(584)	8,377
Investment Properties	–	89	(15)	74
Goodwill and Intangible Assets	1,029	–	(3)	1,026
Deferred Income Taxes	–	(49)	276	227
Security Deposits	354	–	–	354
Franchise Loans Receivable	–	–	314	314
Other Assets	787	–	(410)	377
Total Assets	$ 15,919	$ (88)	$ 1,010	$ 16,841
Liabilities				
Current Liabilities				
Bank indebtedness	$ 3	$ –	$ 7	$ 10
Short term debt	–	–	535	535
Trade payables and other liabilities	3,416	(62)	168	3,522
Provisions	–	62	–	62
Long term debt due within one year	433	–	469	902
Total Current Liabilities	3,852	–	1,179	5,031
Provisions	–	22	21	43
Long Term Debt	4,213	–	985	5,198
Deferred Income Taxes	178	(88)	(55)	35
Capital Securities	221	–	–	221
Other Liabilities	534	(22)	198	710
Minority Interest	41	(41)	–	–
Total Liabilities	9,039	(129)	2,328	11,238
Shareholders' Equity				
Common Share Capital	1,475	–	–	1,475
Retained Earnings	5,395	–	(1,273)	4,122
Contributed Surplus	–	–	1	1
Accumulated Other Comprehensive Income	10	–	(5)	5
Non-controlling Interest	–	41	(41)	–
Total Shareholders' Equity	6,880	41	(1,318)	5,603
Total Liabilities and Shareholders' Equity	$ 15,919	$ (88)	$ 1,010	$ 16,841

Note 17. Supplementary Financial Information

As the unaudited interim period condensed consolidated financial statements for the periods ended March 26, 2011 and March 27, 2010 are the Company's first financial statements prepared using IFRS, the Company has included below certain unaudited annual IFRS disclosures as at, or for the period ended, January 1, 2011 to the extent that they are new disclosures or have changed significantly under IFRS and are considered material to the understanding of the Company's unaudited interim period condensed consolidated financial statements. These disclosures have been included to assist readers in understanding the impact of the IFRS adjustments.

a) Income Taxes

Income taxes recognized in the consolidated statement of earnings are as follows:

(millions of Canadian dollars)	2010
Current income tax expense	
Current period	$ 249
Adjustment in respect of prior periods	(1)
	$ 246
Deferred tax expense	
Origination and reversal of temporary differences	73
Total income tax expenses	$ 319

Income taxes (recovery) recognized in other comprehensive income (loss) are as follows:

(millions of Canadian dollars)	2010
Cash flow hedges – fair value	(1)
Cash flow hedges – reclass to net earnings	3
Defined benefit plan actuarial gains (losses)	(32)
Total income taxes (recovery) recognized in other comprehensive income (loss)	(30)

The effective income tax rate in the consolidated statements of earnings is reported at a rate different than the weighted average basic Canadian federal and provincial statutory income tax rate for the following reasons:

	2010
Weighted average basic Canadian federal and provincial statutory income tax rate	29.9%
Net increase (decrease) resulting from:	
Effect of tax rates in foreign jurisdictions	(1.0%)
Non-deductible expenses	2.7%
Adjustments in respect of prior periods	(0.1%)
Other	0.6%
Effective income tax rate	32.1%

Deferred Tax Assets and Liabilities

Unrecognized deferred tax assets Deferred tax assets have not been recognized in respect of the following items:

(millions of Canadian dollars)	2010
Deductible temporary differences	10
Tax losses	2

The tax losses expire in the years 2027, 2028 and 2029. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

Recognized deferred tax assets Deferred tax assets and liabilities are attributable to the following:

(millions of Canadian dollars)	**As at January 1, 2011**	As at January 3, 2010
Trade payables and other liabilities	**$ 71**	$ 74
Other liabilities	**239**	237
Fixed assets	**(233)**	(195)
Other assets	**(23)**	(9)
Losses carried forward (expiring 2015 to 2030)	**87**	92
Other	**51**	32
Net deferred income tax assets	**$ 192**	$ 231

(millions of Canadian dollars)	**As at January 1, 2011**	As at January 3, 2010
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	**$ 227**	$ 258
Deferred income tax liabilities	**(35)**	(27)
Net deferred income tax assets	**$ 192**	$ 231

b) Credit Card Receivables

The Company, through PC Bank, participates in bank supported and term securitization programs. Under these programs, PC Bank sells a portion of the total interest in its credit card receivables to independent trusts in exchange for cash. The trusts fund these purchases by issuing debt securities in the form of asset-backed commercial paper or asset-backed term notes to third-party investors.

Due to the retention of substantially all of the risks and rewards on these assets the Company, through PC Bank, continues to recognize these assets within credit card receivables and the transfers are accounted for as secured financing transactions. The associated liability secured by these assets is included in Short term debt and Long term debt (see note 17(j)) and is carried at amortized cost.

The following table summarizes the carrying amounts for credit card receivables:

(millions of Canadian dollars)	**As at January 1, 2011**	As at January 3, 2010
Credit card receivables	**$ 396**	$ 419
Securitized to *Eagle Credit Card Trust*	**1,100**	500
Other independent credit card trusts	**535**	1,225
Total credit card receivables	**2,031**	2,144
Allowance for credit card receivables	**(34)**	(49)
Net credit card receivables	**$ 1,997**	$ 2,095

A continuity of the Company's allowances for credit card receivables is as follows:

(millions of Canadian dollars)	2010
Allowances, beginning of year	**$ (49)**
Provision for losses	**(95)**
Recoveries	**(11)**
Write-offs	**121**
Allowances, at end of year	**$ (34)**

The allowance for credit card receivables recorded in credit card receivables on the consolidated balance sheets is maintained at a level which is considered adequate to absorb credit related losses on credit card receivables.

Credit card receivables that are past due of $23 million as at January 1, 2011 (January 3, 2010 – $35 million) were not classified as impaired as they were less than 90 days past due and their past due status was reasonably expected to be remedied. Any credit card receivable balances with a payment that is contractually 180 days in arrears or where the likelihood of collection is considered remote are written-off. Concentration of credit risk with respect to credit card receivables is limited due to the Company's diverse credit card customer base.

Credit card receivables past due but not impaired as at January 1, 2011 were as follows:

(millions of Canadian dollars)	31 – 60 days	61 – 90 days	Total
Credit card receivables	$ 14	$ 9	$ 23

The time period beyond the contractual due date during which a cardholder is permitted to make a payment without the receivables being classified as past due, is incorporated above.

c) Fixed Assets

(millions of Canadian dollars)				2010			
	Land	Buildings	Equipment and fixtures	Leasehold improvements	Finance Leases – Land, Buildings and Equipment	Assets under construction	Total
Cost							
Balance, beginning of year	$ 1,626	$ 5,725	$ 4,419	$ 581	$ 316	$ 606	$ 13,273
Additions	–	21	126	27	119	1,082	1,375
Disposals	(25)	(61)	(168)	(1)	–	–	(255)
Transfer to held for sale	(11)	(16)	–	–	–	–	(27)
Transfer to investment properties	(9)	(4)	–	–	–	–	(13)
Transfer to/from assets under construction	35	162	473	25	–	(695)	–
Other	(79)	(31)	23	–	–	81	(6)
Balance, end of year	$ 1,537	$ 5,796	$ 4,873	$ 632	$ 435	$ 1,074	$ 14,347
Accumulated depreciation and impairment losses							
Balance, beginning of year	$ 8	$ 1,813	$ 3,133	$ 312	$ 185	$ 7	$ 5,458
Depreciation	–	159	431	57	20	–	667
Impairment losses	–	22	2	5	–	–	29
Reversal of impairment	–	(34)	(2)	–	–	–	(36)
Disposals	–	(11)	(124)	–	–	–	(135)
Transfer to held for sale	(2)	(11)	–	–	–	–	(13)
Balance, end of year	$ 6	$ 1,938	$ 3,440	$ 374	$ 205	$ 7	$ 5,970
Carrying amount							
January 3, 2010	$ 1,618	$ 3,912	$ 1,286	$ 269	$ 131	$ 599	$ 7,815
January 1, 2011	$ 1,531	$ 3,858	$ 1,433	$ 258	$ 230	$ 1,067	$ 8,377

Assets Held under Finance Leases The Company leases various land and buildings, and equipment and fixtures under a number of finance lease arrangements. As at January 1, 2011, the net carrying amount of leased land and buildings was $175 million (January 3, 2010 – $131 million), and the net carrying amount of leased equipment and fixtures was $55 million (January 3, 2010 – $nil).

Security and Assets Pledged As at January 1, 2011, fixed assets with a carrying amount of $190 million (January 3, 2010 – $196 million) are encumbered by mortgages of $97 million (January 3, 2010 – $98 million).

Impairment losses For the year ended January 1, 2011, the Company recorded $29 million of impairment losses on fixed assets in respect of 18 CGUs in the retail operating segment. Impairment loss occurred in a CGU where the carrying amount of the retail location exceeded its recoverable amount. The recoverable amount was based on the higher of the CGU's fair value less costs to sell and its value in use. Approximately 50% of impaired CGUs were $13 million higher than their fair value less costs to sell. The remaining 50% of impaired CGUs were determined to be $16 million higher than their value in use.

Various impairment indicators were used to determine the need to test a retail location for an impairment loss. Examples of these indicators include performance of a retail location that is below forecast and expectation of an adverse impact on future performance of a retail location from competitive activities. When determining the value in use of a retail location, the Company develops a discounted cash flow model for the individual CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU. Sales forecasts for the cash flows were based on actual operating results, operating budgets, and long term growth rates that were consistent with industry averages, all of which is consistent with strategic plans presented to the Company's Board. The estimate of the value in use of the relevant CGUs was determined using a pre-tax discount rate of 9%-10% at January 1, 2011 (January 3, 2010 – 9.5%-10%).

d) Investment Properties

The following is a continuity of investment properties:

(millions of Canadian dollars)	2010
Cost	
Balance, beginning of year	$ 142
Disposals	(4)
Transfer from fixed assets	13
Balance, end of year	$ 151
Accumulated depreciation and impairment losses	
Balance, beginning of year	$ 67
Depreciation	2
Impairment losses	8
Balance, end of year	$ 77

	Carrying Amount	Fair Value
January 3, 2010	$ 75	$ 88
January 1, 2011	$ 74	$ 94

During the year, the Company recognized in operating income $5 million of rental income from its investment properties, and incurred direct operating costs of $3 million related to its investment properties. In addition, the Company recognized direct operating costs of $1 million related to its investment properties for which no rental income was earned.

An external, independent valuation company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, provided appraisals for certain of the Company's investment properties. For the other investment properties, the Company determined the fair value by relying on information provided by comparable market information and the independent manager of the Company's investment properties.

Where available, fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

Where market values are not available, valuations are prepared using the income approach by considering the estimated cash flows expected from renting out the property based on existing lease terms and where appropriate, the ability to renegotiate the lease terms once the initial term or option term(s) expire plus the net proceeds from a sale of the property at the end of the investment horizon.

The valuations of investment properties using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements, and capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. At January 1, 2011, the pre-tax discount rates used in the valuations for investment properties ranged from 6.75% to 10%, and the terminal capitalization rates ranged from 6% to 9.25%.

Impairment Losses For the year ended January 1, 2011, the Company recorded in operating income $8 million in impairment losses on investment properties as the carrying amount of all impaired properties was higher than their fair values less costs to sell. The main factor contributing to the impairment of investment properties was external economic factors.

e) Leases

The Company leases certain of its retail stores, distribution centres, corporate offices, and other assets under operating or finance lease arrangements. Substantially all of the retail store leases have renewal options for additional terms. The contingent rents under certain of the retail store leases are based on a percentage of retail sales. The Company also has properties which are subleased to third parties.

Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, the discount rate and the allocation of leasehold interests between the land and building elements of property leases.

Operating Leases – As Lessee Future minimum lease payments relating to the Company's operating leases are as follows:

	Payments due by year						
(millions of Canadian dollars)	2011	2012	2013	2014	2015	Thereafter	2011 Total
Operating lease payments	$ 182	$ 166	$ 145	$ 125	$ 99	$ 384	$ 1,101
Sub-lease income	(53)	(47)	(41)	(34)	(22)	(50)	(247)
Net operating lease payments	$ 129	$ 119	$ 104	$ 91	$ 77	$ 334	$ 854

The Company recorded $128 million as an expense for the year ended January 1, 2011 in the statement of earnings in respect of operating leases. During that period, contingent rent recognized as an expense in respect of operating leases totaled $1 million, while sub-lease income earned totalled $55 million which is recognized in operating income.

Operating Leases – As Lessor As at January 1, 2011, the Company leased certain owned land and buildings with a cost of $1,082 million (January 3, 2010 − $1,183 million) and related accumulated depreciation of $309 million (January 3, 2010 − $291 million). Rental income for the year ended January 1, 2011 was $119 million and was recognized in operating income. In addition, the Company recognized $4 million of contingent rent for the year ended January 1, 2011.

	Payments to be received by year						
(millions of Canadian dollars)	2011	2012	2013	2014	2015	Thereafter	2011 Total
Operating lease receivable	$ 111	$ 98	$ 85	$ 68	$ 65	$ 90	$ 517

Finance Leases – As Lessee The Company has finance leases for certain property, plant and equipment.

Future minimum lease payments relating to the Company's finance leases are as follows:

	Payments due by year						
(millions of Canadian dollars)	2011	2012	2013	2014	2015	Thereafter	2011 Total
Finance lease payments	$ 63	$ 51	$ 43	$ 28	$ 28	$ 422	$ 635
Less future finance charges	(21)	(20)	(19)	(17)	(16)	(246)	(339)
Present value of minimum lease payments	$ 42	$ 31	$ 24	$ 11	$ 12	$ 176	$ 296

During 2010, contingent rent recognized by the Company as an expense in respect of finance leases totalled $1 million. At January 1, 2011, the sub-lease payments receivable under finance leases totalled $13 million (January 3, 2010 – $8 million).

(millions of Canadian dollars)	**January 1, 2011**	January 3, 2010
Carrying amount of finance lease payable recorded in:		
Long term debt due within one year	**$ 42**	$ 8
Long term debt	**254**	186
	$ 296	$ 194

f) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill and intangible assets were as follows:

(millions of Canadian dollars)	**2010**				
	Indefinite Life Intangible Assets and Goodwill		**Definite Life Intangible Assets**		
	Goodwill	**Trademarks and brand names**	**Internally generated intangible assets**	**Other intangible assets**	**Total**
Cost					
Balance, beginning of year	**$ 1,929**	**$ 51**	**$ 8**	**$ 36**	**$ 2,024**
Additions	**–**	**–**	**10**	**6**	**16**
Balance, end of year	**$ 1,929**	**$ 51**	**$ 18**	**$ 42**	**$ 2,040**
Accumulated amortization and impairment losses					
Balance, beginning of year	**$ 989**	**$ –**	**$ –**	**$ 12**	**$ 1,001**
Amortization	**–**	**–**	**2**	**11**	**13**
Balance, end of year	**$ 989**	**$ –**	**$ 2**	**$ 23**	**$ 1,014**
Carrying Amount					
January 3, 2010	$ 940	$ 51	$ 8	$ 24	$ 1,023
January 1, 2011	$ 940	$ 51	$ 16	$ 19	$ 1,026

For purposes of impairment testing, the Company's CGUs are grouped and goodwill is allocated accordingly. The CGU grouping represents the lowest level at which goodwill is monitored for internal management purposes. The carrying amount of goodwill for each CGU grouping with significant goodwill is identified separately in the table below:

(millions of Canadian dollars)	**As at January 1, 2011**	As at January 3, 2010
Quebec	**$ 700**	$ 700
T&T	**129**	131
All other	**111**	109
Carrying amount of goodwill	**$ 940**	$ 940

The recoverable amount of Quebec and T&T Supermarket Inc. ("T&T") was determined by discounting the future cash flows expected to be generated.

The recoverable amount of goodwill allocated to all other CGU groupings is based on fair value less costs to sell using an EBITDA multiple approach.

The trademark and brand names are as a result of the Company's acquisition of T&T. The recoverable amount of these indefinite life intangible assets was based on their fair value less costs to sell. The fair value less costs to sell was determined by discounting the future cash flows expected to be generated from the continued use of the trademark and brand names.

The key assumptions in the calculations of goodwill and intangible asset recoverable amounts are projected revenues, royalty rates and margins, which are derived from past experience, actual operating results, budgets and the Company's five year strategic plan approved by the Board. The cash flow forecasts are extrapolated beyond the five year period using estimated long-term growth rates of 1.5% to 2%.

The pre-tax discount rates used in the recoverable amount calculations range from 9.5% - 15%. On a post-tax basis, the discount rates ranged from 7.3% - 12%. These discount rates are derived from the Company's post-tax weighted average cost of capital as adjusted for the specific risks relating to each CGU.

The Company completed its annual impairment tests and concluded that there was no impairment.

Internally generated definite life intangible assets predominantly consist of software development costs and have an estimated remaining useful life of 3 years. Other definite life intangible assets have an estimated remaining useful life of up to a maximum of 17 years. Amortization of definite life intangible assets is recognized in operating income. During the year ended January 1, 2011, the Company completed its assessment of impairment indicators and concluded that there was no impairment.

g) Franchise Loans Receivable

Franchise loans receivable include amounts due from independent franchisees for loans issued through an independent funding trust consolidated under SIC-12. 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. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

(millions of Canadian dollars)	January 1, 2011	January 3, 2010
Carrying amount of franchise loans receivable recorded in:		
Prepaid expenses and other assets	**$ 4**	$ 3
Franchise loans receivable	**314**	344
Franchise loans receivable	**$ 318**	$ 347

h) Other Assets

(millions of Canadian dollars)	January 1, 2011	January 3, 2010
Accrued benefit plan asset	**$ 5**	$ 11
Other receivables	**119**	105
Unrealized cross currency swaps receivable	**172**	142
Other	**81**	72
Other assets	**$ 377**	$ 330

i) Provisions

Provisions include self-insurance, commodity taxes, decommissioning costs, onerous lease arrangements and other. A continuity of the Company's provisions is as follows:

(millions of Canadian dollars)	2010
Balance, beginning of year	**$ 106**
Additions	**59**
Payments	**(39)**
Reversals	**(21)**
Balance, end of year	**$ 105**

	January 1, 2011	January 3, 2010
Current	**62**	62
Non-current	**43**	44
Provisions	**$ 105**	$ 106

j) Long Term Debt

(millions of Canadian dollars)	**January 1, 2011**	January 3, 2010
Loblaw Companies Limited Notes		
7.10%, due 2010	**$ –**	$ 300
6.50%, due 2011	**350**	350
5.40%, due 2013	**200**	200
6.00%, due 2014	**100**	100
4.85%, due 2014	**350**	350
7.10%, due 2016	**300**	300
5.22%, due 2020	**350**	–
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**(81)**	(67)
6.85%, due 2032	**200**	200
6.54%, due 2033	**200**	200
8.75%, due 2033	**200**	200
6.05%, due 2034	**200**	200
6.15%, due 2035	**200**	200
5.90%, due 2036	**300**	300
6.45%, due 2039	**200**	200
7.00%, due 2040	**150**	150
5.86%, due 2043	**55**	55
Private Placement Notes		
6.48%, due 2013 (US $150 million)	**150**	158
6.86%, due 2015 (US $150 million)	**150**	158
Long Term Debt Secured by Mortgage		
5.49%, due 2018 (see note 17(c))	**93**	96
Guaranteed Investment Certificates due 2011–2015 (1.55%–3.15%)	**18**	–
Borrowings Related To Credit Card Receivables		
Eagle Trust[(1)], due 2011-2015	**1,097**	500
Independent funding trust[(2)]	**395**	381
Finance lease obligations (see note 17(e))	**296**	194
Other	**1**	2
Total long term debt	**6,100**	5,353
Less amount due within one year	**902**	312
Long term debt	**$ 5,198**	$ 5,041

(1) The notes issued by Eagle Trust are medium-term notes which are collateralized by PC Bank's credit card receivables. The Series 2006-1 Notes bear interest at fixed rates, payable semi-annually. Pursuant to the Series 2006-1 purchase agreements, principal repayment was remitted to Eagle Trust commencing December 1, 2010 and accumulated until Series 2006-1 medium-term notes are settled. The Series 2006-1 medium-term notes outstanding have effective interest rates ranging from 4.44%-4.98%.

(2) 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. These trusts are administered by a major Canadian chartered bank. Subsequent to the end of the first quarter of 2011, the $475, 364-day revolving committed credit facility was renewed.

The schedule of repayment of long term debt, based on maturity is as follows: 2011 − $902 million; 2012 − $430 million; 2013 − $630 million; 2014 − $465 million; 2015 − $521 million; thereafter − $3,152 million. The fair market value of long term debt as at January 1, 2011 was $6,598 million (January 3, 2010 - $5,644 million).

k) Other Liabilities

(millions of Canadian dollars)	January 1, 2011	January 3, 2010
Defined benefit plan liability	**$ 345**	$ 278
Other long term employee benefit liability	**118**	116
Deferred vendor allowances	**40**	48
Unrealized interest rate swap liability	**24**	31
Share-based compensation liability	**28**	18
Other	**155**	164
Other liabilities	**$ 710**	$ 655

Included in Other above is the liability associated with the preferred shares issued by T&T.

l) Post-Employment and Other Long Term Employee Benefits

The Company sponsors a number of pension plans, including registered funded defined benefit pension plans, registered defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. Certain obligations of the Company under these supplemental pension arrangements are secured by a standby letter of credit issued by a major Canadian chartered bank. The Company's defined benefit pension plans are predominantly non-contributory and these benefits are, in general, based on career average earnings subject to limits.

A national defined contribution pension plan for salaried employees was introduced by the Company during 2006. All eligible salaried employees were given the option to join this new plan and convert their past accrued pension benefits or to remain in their existing defined benefit pension plans. All salaried employees joining the Company after the date of introduction of the national defined contribution pension plan participate only in that plan.

The Company also offers certain post- employment benefit plans other than pension plans. These other post-employment benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for these post-employment benefits are those who retire at certain ages having met certain service requirements. The majority of post-employment health care plans for current and future retirees include a limit on the total benefits payable by the Company.

The Company also contributes to various multi-employer pension plans that provide pension benefits.

The Company also offers other long term employee benefit plans that include long term disability benefits and continuation of health and dental benefits while on disability.

(i) Defined Benefit Pension Plans and Other Post-Employment Defined Benefit Plans

Information on the Company's post-employment defined benefit pension plans and other post-employment defined benefit plans, in aggregate, is summarized as follows:

(millions of Canadian dollars)	**As at January 1, 2011**		As at January 3, 2010	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Present value of funded obligations	**$ (1,337)**	**$ –**	$ (1,144)	$ –
Fair value of plan assets	**1,267**	**–**	1,119	–
Status of funded obligations	**$ (70)**	**$ –**	$ (25)	$ –
Present value of unfunded obligations	**(65)**	**(199)**	(63)	(168)
Total funded status of obligations	**$ (135)**	**$ (199)**	$ (88)	$ (168)
Unrecognized past service costs	**–**	**(3)**	–	(4)
Asset not recognized due to 'asset ceiling'	**(1)**	**–**	(1)	–
Liability arising from minimum funding requirement for past service	**(2)**	**–**	(6)	–
Total recognized liability for post-employment defined benefit plans	**$ (138)**	**$ (202)**	$ (95)	$ (172)
Recorded on the consolidated balance sheets as follows:				
Other assets (note 17(h))	**$ 5**	**$ –**	$ 11	$ –
Other liabilities (note 17(k))	**(143)**	**(202)**	(106)	(172)
Total net recognized liability for post-employment defined benefit plans	**$ (138)**	**$ (202)**	$ (95)	$ (172)

(millions of Canadian dollars)	**2010**		
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	**Total**
Changes in the fair value of plan assets			
Fair value, beginning of year	**$ 1,119**	**$ –**	**$ 1,119**
Employer contributions	**103**	**7**	**110**
Employee contributions	**2**	**–**	**2**
Benefits paid	**(73)**	**(7)**	**(80)**
Expected return on plan assets	**76**	**–**	**76**
Actuarial gains included in other comprehensive income (see below)	**41**	**–**	**41**
Transfers to other pension plans	**(1)**	**–**	**(1)**
Fair value, end of year	**$ 1,267**	**$ –**	**$ 1,267**
Changes in the present value of the defined benefit obligations			
Balance, beginning of year	**$ 1,208**	**$ 168**	**$ 1,376**
Current service cost	**41**	**10**	**51**
Interest cost	**73**	**10**	**83**
Benefits paid	**(73)**	**(7)**	**(80)**
Employee contributions	**2**	**–**	**2**
Actuarial losses included in other comprehensive income (see below)	**149**	**18**	**167**
Transfers to other pension plans	**(1)**	**–**	**(1)**
Contractual termination benefits	**3**	**–**	**3**
Balance, end of year	**$ 1,402**	**$ 199**	**$ 1,601**

The actual return on plan assets was $117 million for the year ended January 1, 2011.

Composition of Plan Assets The defined benefit pension plan assets are held in trust and consisted of the following asset categories:

Percentage of plan assets	**As at January 1, 2011**	As at January 3, 2010
Asset category		
Equity securities	**59%**	60%
Debt securities	**39%**	38%
Cash and cash equivalents	**2%**	2%
Total	**100%**	100%

The defined benefit pension plan assets include securities issued by the Company having a fair value of $3 million, as at January 1, 2011 (January 3, 2010 – $2 million).

The cost recognized in other comprehensive income before tax for post-employment defined benefit plans is as follows:

(millions of Canadian dollars)	**2010**	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**
Actuarial losses	**$ 108**	**$ 18**
Change in liability for minimum funding requirements for past service	**(4)**	**–**
Total recognized in other comprehensive income before tax	**$ 104**	**$ 18**

The cumulative actuarial losses recognized in other comprehensive income for the Company's post-employment defined benefit plans are as follows:

(millions of Canadian dollars)	**2010**	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**
Cumulative amount, beginning of year	**$ –**	**$ –**
Net actuarial losses recognized in the year	**104**	**18**
Cumulative amount, end of year	**$ 104**	**$ 18**

Principal Actuarial Assumptions The principal actuarial assumptions used in calculating the Company's defined benefit obligations and net defined benefit plan cost for the year were as follows (expressed as weighted averages):

	2010	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**
Discount rate at end of year	**5.25%**	**5.25%**
Rate of compensation increase	**3.50%**	**n/a**
Expected rate of return on plan assets	**6.75%**	**n/a**

The growth rate of health care costs, primarily drug and other medical costs for other benefit plans, for the net defined benefit cost was estimated at 9.0% and is assumed to gradually decrease to 5.0% by 2015, remaining at that level thereafter. The mortality table used for the 2010 defined benefit plan obligation and net defined benefit plan costs was UP94 projected to 2020.

The overall expected long-term rate of return on plan assets is 6.75%. The expected long-term rate of return on plan assets is determined based on asset mix, active management and a review of historical returns. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the individual asset categories.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2010 and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and on the benefit plan cost for defined benefit pension plans and other defined benefit plans. The table reflects the impact on the current service and interest cost components for the discount rate and expected growth rate of health care costs assumptions.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Defined Benefit Pension Plans		Other Defined Benefit Plans	
	Accrued Benefit Plan Obligations	Benefit Plan Cost(1)	Accrued Benefit Plan Obligations	Benefit Plan Cost(2)
Expected long term rate of return on plan assets		6.75%		n/a
Impact of: 1% increase	n/a	(11)	n/a	n/a
1% decrease	n/a	11	n/a	n/a
Discount rate	5.25%	6.00%	5.25%	6.00%
Impact of: 1% increase	(188)	(7)	(24)	(3)
1% decrease	218	7	27	1
Expected growth rate of health care costs(2)			8.00%	9.00%
Impact of: 1% increase	n/a	n/a	25	3
1% decrease	n/a	n/a	(22)	(3)

n/a – not applicable
(1) Discount rate and expected growth rate of health care costs sensitivity is for current service and interest costs only.
(2) Gradually decreasing to 5.0% by 2015 for the accrued benefit plan obligation and the benefit plan cost, remaining at that level thereafter.

Historical Information The history of the plans is as follows:

(millions of Canadian dollars)	**January 1, 2011**	January 3, 2010
Fair value of plan assets	**$ 1,267**	$ 1,119
Present value of defined benefit obligations	**(1,601)**	(1,376)
Deficit in the plans	**$ (334)**	$ (257)
Experience adjustments arising on plan assets	**41**	n/a
Experience adjustments arising on plan liabilities	**(167)**	n/a

(ii) Defined Contribution Pension Plans

During the year ended January 1, 2011, the Company recognized a $16 million expense in operating income, which represents the contributions made in connection with defined contribution plans, excluding multi-employer pension plans that are accounted for as defined contribution plans.

(iii) Multi-Employer Pension Plans

During the year ended January 1, 2011, the Company recognized an expense of $52 million in operating income, which represents the contributions made in connection with multi-employer pension plans.

(iv) Other Long-Term Employee Benefit Plans

During the year ended January 1, 2011, the Company recognized in earnings before income taxes a $17 million expense related to its other long-term employee benefits.

(v) Post-Employment and Other Long Term Employee Benefit Cost

The net cost recognized in earnings before income taxes for the Company's post-employment and other long term employee benefit plans was as follows:

(millions of Canadian dollars)	Year ended December 31, 2010		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Current service cost, net of employee contributions	$ 41	$ 10	$ 51
Interest cost on defined benefit obligations(1)	73	11	84
Expected return on pension plan assets (1)	(76)	–	(76)
Contractual termination benefits	3	–	3
Past service cost	–	(1)	(1)
Net post-employment defined benefit cost	$ 41	$ 20	$ 61
Defined contribution			16
Multi-employer pension plan costs			52
Total post-employment benefit cost			129
Other long-term employee benefit costs			17
Net post-employment and other long term employee benefit costs			$ 146

(1) Amounts are recognized in net interest expense and other financing charges

The net post-employment and other long term employee benefit costs are recognized in the following line items in the statement of earnings:

(millions of Canadian dollars)	2010
Selling, general and administrative expenses	$ 134
Net interest expense and other financing charges	12
Net post-employment and other long term employee benefit costs	$ 146

m) Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)	2010
Wages, salaries, and other short-term employment benefits	$ 2,974
Post-employment benefits	121
Other long-term employee benefits	13
Share-based compensation	42
Capitalized to fixed assets	(21)
Employee costs	$ 3,129

n) Related Party Transactions

The Company's majority shareholder is Weston. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies which he controls including through Wittington who owns approximately 62.5% of the outstanding common shares of Weston, which in turn, controls approximately 62.8% of the outstanding common shares of the Company. Mr. Weston also owns approximately 1.3% of the outstanding commons shares of the Company directly. The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Transactions between the Company and its consolidated entities, which are either 100% owned subsidiaries or SPEs consolidated pursuant to SIC-12, have been eliminated on consolidation.

Transactions with Related Parties

(millions of Canadian dollars)	Transaction Value 2010
Cost of Merchandise Inventory Sold	
Inventory purchases from a subsidiary of Weston	$ 613
Inventory purchases from a related party(1)	17
Operating Income	
Cost sharing agreements with Parent2)	9
Administrative services to Parent(3)	16
Lease of office space from a subsidiary of Wittington(4)	3

(1) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity. Total balance outstanding owing to Associated British Foods plc as at January 1, 2011 was $3 million.

(2) Weston and the Company have each entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and information technology related matters on behalf of itself and the related party. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for the Company's proportionate share of the costs incurred on its behalf by Weston.

(3) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information system, risk management, treasury and legal. Payments are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Weston together, each party pays the appropriate proportion of such costs. Fees paid under this agreement are reviewed each year by the Audit Committee.

(4) The Company leases certain properties from a subsidiary of Wittington, namely office space. The total balance outstanding for amounts with Weston and Wittington as at January 1, 2011 was $33 million.

Post-employment Benefit Plans Contributions made by the Company to the Company's post-employment benefit plans are disclosed in note 17(l).

Income Tax Matters From time to time, the Company, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations. These elections and accompanying agreements did not have a material impact on the Company.

Key Management Personnel The Company's key management personnel are comprised of the Board and members of the executive team of the Company, as well as both Weston and Wittington to the extent that they have the authority and responsibility for planning, directing and controlling the activities of the Company.

Compensation of Key Management Personnel Annual compensation of key management personnel that is directly attributable to the Company is as follows:

(millions of Canadian dollars)	2010
Wages, salaries and other short-term employee benefits	7
Share-based compensation	5
Total Compensation	12

Earnings Coverage Exhibit to the Unaudited Interim Period Condensed Consolidated Financial Statements

The following is the Company's updated earnings coverage ratio for the rolling 52 week period ended March 26, 2011 in connection with the Company's Short Form Base Shelf Prospectus dated November 25, 2010.

Earnings Coverage on long term debt obligations and capital securities	4.36 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.

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COMPANIES LIMITED

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