Loblaw

COMPANIES LIMITED

Third Quarter Report to Shareholders
40 weeks ending October 8, 2011

Q3

LOBLAW COMPANIES LIMITED REPORTS THIRD QUARTER 2011 RESULTS

2011 Third Quarter Summary[1]

- Basic net earnings per common share of $0.84, up 18.3% compared to the third quarter of 2010
- EBITDA margin[2] of 6.6% compared to 6.1% in the third quarter of 2010
- Revenue of $9,727 million, an increase of 2.0% over the third quarter of 2010
- Retail sales growth of 2.0% and a same-store sales growth of 1.3% from the third quarter of 2010

"In the third quarter, Loblaw's continued improvement in execution helped to drive the top-line while EBITDA margin[2] and expenses remained on trend," said Galen G. Weston, Executive Chairman, Loblaw Companies Limited. "As our infrastructure program progresses, going forward we expect the related investments to negatively impact operating income. With our initiatives tracking to plan, we look forward to the ongoing leadership of our new President, Vicente Trius, who is now firmly established in his role."

Due to the transition to International Financial Reporting Standards ("IFRS" or "GAAP") effective January 2, 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 IFRS. Further information on the transition to IFRS and its impact on the Company's financial position, financial performance and cash flows is included in note 15 to Loblaw Companies Limited's (the "Company" or "Loblaw") third quarter 2011 unaudited interim period condensed consolidated financial statements.

With this transition, the Company 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 brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services.

Consolidated Quarterly Results of Operations

For the periods ended October 8, 2011 and October 9, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011 (16 weeks)**	2010 (16 weeks)	% Change	**2011 (40 weeks)**	2010 (40 weeks)	% Change
Revenue	**$ 9,727**	$ 9,535	2.0%	**$ 23,877**	$ 23,717	0.7%
Operating income	**421**	389	8.2%	**1,069**	1,023	4.5%
Net earnings	**236**	197	19.8%	**595**	510	16.7%
Basic net earnings per common share ($)	**0.84**	0.71	18.3%	**2.11**	1.84	14.7%
Operating margin	**4.3%**	4.1%		**4.5%**	4.3%	
EBITDA[2]	**$ 639**	$ 581	10.0%	**$ 1,598**	$ 1,499	6.6%
EBITDA margin[2]	**6.6%**	6.1%		**6.7%**	6.3%	

(1) This report contains forward-looking information. See Forward-Looking Statements on page 5 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 should 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 19 of this report.

- Revenue increased by $192 million, or 2.0%, to $9,727 million in the third quarter of 2011 compared to the third quarter of 2010. This increase was driven by improvements in both Retail sales and Financial Services revenue, as described below.

- Operating income increased by $32 million, or 8.2%, to $421 million in the third quarter of 2011 compared to the third quarter of 2010. Operating margin was 4.3% for the third quarter of 2011 compared to 4.1% in the same quarter in 2010. Retail operating income improved by $39 million, offset by continued investment in the growth of the Financial Services segment which resulted in a decline in operating income of $7 million.

- Consolidated operating income included the following items:
  - Incremental costs of $19 million related to investments in information technology and supply chain. These costs included the following charges:
    - $55 million (2010 – $40 million) related to depreciation and amortization;
    - $89 million (2010 - $80 million) related to other supply chain and information technology costs; and
    - A nil charge (2010 – $5 million) related to changes in the distribution network.
  - A charge of $15 million (2010 – $9 million) related to the effect of share-based compensation net of equity forwards;
  - A $12 million charge related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms under collective agreements ratified in the third quarter of 2010. In the third quarter of 2010, ratification costs of $17 million were incurred; and
  - A $14 million gain related to the sale of a portion of a property in North Vancouver, British Columbia.

- Net earnings increased by $39 million, or 19.8%, to $236 million in the third quarter of 2011 compared to the third quarter of 2010, primarily due to the improvement in operating income, a decrease in net interest expense and other financing charges and a decline in the effective income tax rate.

- For the fourth quarter and full-year 2011, the Company expects:
  - incremental costs related to investments in information technology and supply chain to be approximately $20 million for the fourth quarter and approximately $90 million for the year;
  - costs associated with the transition of certain Ontario conventional stores under collective agreements to range from $20 million to $30 million for the fourth quarter and $32 million to $42 million for the year;
  - capital expenditures to be approximately $1 billion for the year, after investing approximately $640 million through the third quarter; and
  - that the IFRS fixed asset impairment standard may result in volatility in our earnings compared to the fourth quarter of 2010 which included a net recovery of $7 million.

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

Retail Results of Operations

For the periods ended October 8, 2011 and October 9, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011 (16 weeks)**	2010 (16 weeks)	% Change	**2011 (40 weeks)**	2010 (40 weeks)	% Change
Sales	**$ 9,563**	$ 9,377	2.0%	**$ 23,477**	$ 23,314	0.7%
Gross profit	**2,071**	2,060	0.5%	**5,251**	5,204	0.9%
Operating income	**397**	358	10.9%	**1,015**	936	8.4%
Same-store sales growth (decline)	**1.3%**	(0.4%)		**0.4%**	(0.3%)	
Gross profit percentage	**21.7%**	22.0%		**22.4%**	22.3%	
Operating margin	**4.2%**	3.8%		**4.3%**	4.0%	

- In the third quarter of 2011, the change in Retail sales over the same period in the prior year were driven by the following factors:
    - Same-store sales growth was 1.3% (2010 – 0.4% decline);
    - Sales growth in food was moderate;
    - Sales in drugstore declined marginally, due to the continued impact of new generic versions of certain prescription drugs as well as regulatory changes enacted across several provinces throughout 2010 and 2011;
    - Gas bar sales growth was strong as a result of higher retail gas prices and moderate volume growth;
    - Sales in general merchandise, excluding apparel, declined moderately due to continued reductions in square footage and optimization of range and assortment of products;
    - Increased apparel square footage led to a moderate increase in sales; and
    - The Company experienced moderate average quarterly internal food price inflation during the third quarter of 2011, which was lower than the average quarterly national food price inflation of 4.9% (2010 – 1.3%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores. In the third quarter of 2010, the Company's average quarterly internal food price index was flat.

- Gross profit increased by $11 million to $2,071 million (21.7% of sales) in the third quarter of 2011 compared to $2,060 million in the third quarter of 2010 (22.0% of sales). The decline in gross profit percentage compared to the same period in the prior year was primarily driven by a higher penetration of lower margin gas bar sales and increased fuel costs. The $11 million increase in gross profit was mainly due to improved sales, improved control label profitability, a stronger Canadian dollar, growth and performance of the Company's franchise business and the shift of pharmaceutical professional allowances from selling, general and administrative expenses to gross profit. Increases in promotional pricing programs and transportation costs partially offset these improvements.

- Operating income increased by $39 million, or 10.9%, to $397 million in the third quarter of 2011 compared to $358 million in the third quarter of 2010. Operating margin was 4.2% for the third quarter of 2011 compared to 3.8% in 2010. These increases were due to continued labour and other operating cost efficiencies, improvements in the performance of the Company's investments in franchisees, the gain recognized on the sale of a portion of a property in North Vancouver, British Columbia and increased gross profit as described above. These improvements were partially offset by foreign exchange losses, the incremental costs related to the investment in information technology and supply chain, the costs related to the transition of certain Ontario conventional stores according to the terms of the collective agreements ratified in the third quarter of 2010 and the increase in share-based compensation net of equity forwards. Included in operating income in the third quarter of 2010 were costs associated with the ratification of Ontario collective agreements.

Financial Services Results of Operations

For the periods ended October 8, 2011 and October 9, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011 (16 weeks)**	2010 (16 weeks)	% Change	**2011 (40 weeks)**	2010 (40 weeks)	% Change
Revenue	**$ 164**	$ 158	3.8%	**$ 400**	$ 403	(0.7%)
Operating income	**24**	31	(22.6%)	**54**	87	(37.9%)
Earnings before income taxes	**10**	18	(44.4%)	**17**	55	(69.1%)

Unaudited (millions of Canadian dollars except where otherwise indicated)	**As at October 8, 2011**	As at October 9, 2010	% Change
Average quarterly net credit card receivables	**$ 1,942**	$ 1,927	0.8%
Credit card receivables	**1,911**	1,855	3.0%
Credit card receivables provision	**33**	36	(8.3%)
Annualized yield on average quarterly gross credit card receivables	**12.7%**	13.4%	
Annualized credit loss rate on average quarterly gross credit card receivables	**4.3%**	5.8%	

- Revenue for the third quarter of 2011 increased by $6 million, or 3.8%, to $164 million compared to $158 million in the third quarter of 2010. This increase was primarily driven by increased credit card transaction values in the third quarter of 2011 resulting in higher interchange fee income.

- Operating income decreased by $7 million, or 22.6%, to $24 million in the third quarter of 2011 compared to $31 million in the third quarter of 2010. Earnings before income taxes decreased by $8 million, or 44.4%, to $10 million in the third quarter of 2011 compared to $18 million in the third quarter of 2010. These decreases were attributable to significant marketing investments and customer acquisition costs, consistent with the Company's continued investment in the growth of its Financial Services segment, partially offset by the increase in revenue.

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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:

- 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, including the components of the Company's Enterprise Resource Planning system implementation;
- the inability of the Company's information technology infrastructure to support the requirements of the Company's business;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure to execute successfully and in a timely manner the Company's introduction of innovative and reformulated products or new and renovated stores;
- the inability of the Company's supply chain to service the needs of the Company's stores;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- changes to the legislative/regulatory environment in which the Company operates including changes to the regulation of generic prescription drug prices and the reduction of reimbursement under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- failure to comply with laws and regulations affecting the Company and its business;
- 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, other tax and regulatory liabilities including changes in tax laws, regulations 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 records 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 ("MD&A") and the MD&A 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 third quarter 2011 unaudited interim period condensed consolidated financial statements and the accompanying notes included in this Quarterly Report, the audited annual consolidated financial statements and the accompanying notes for the year ended January 1, 2011 and the related annual MD&A included in the Company's 2010 Annual Report – Financial Review ("2010 Annual Report") and certain additional disclosures included in the Company's first quarter 2011 unaudited interim period condensed consolidated financial statements and accompanying notes and related interim MD&A.

The Company's third quarter 2011 unaudited interim period condensed consolidated financial statements and 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 that the Company controls and are reported in Canadian dollars.

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; and "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.

The information in this MD&A is current to November 15, 2011, unless otherwise noted.

Due to the transition to IFRS effective January 2, 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 IFRS. Further information on the transition to IFRS and its impact on the Company's financial position, financial performance and cash flows is included in note 15 to the Company's third quarter 2011 unaudited interim period condensed consolidated financial statements.

With this transition, the Company 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 brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services.

(1) See Non-GAAP Financial Measures on page 19.

Consolidated Results of Operations

For the periods ended October 8, 2011 and October 9, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011 (16 weeks)**	2010 (16 weeks)	% Change	**2011 (40 weeks)**	2010 (40 weeks)	% Change
Revenue	**$ 9,727**	$ 9,535	2.0%	**$ 23,877**	$ 23,717	0.7%
Operating income	**421**	389	8.2%	**1,069**	1,023	4.5%
Net earnings	**236**	197	19.8%	**595**	510	16.7%
Basic net earnings per common share ($)	**0.84**	0.71	18.3%	**2.11**	1.84	14.7%
Operating margin	**4.3%**	4.1%		**4.5%**	4.3%	
EBITDA[(1)]	**$ 639**	$ 581	10.0%	**$ 1,598**	$ 1,499	6.6%
EBITDA margin[(1)]	**6.6%**	6.1%		**6.7%**	6.3%	

Revenue Revenue for the third quarter increased by 2.0% to $9,727 million compared to $9,535 million in the third quarter of 2010. This increase was driven by improvements in both Retail sales and Financial Services revenue as described below. For the first three quarters of the year, revenue increased by 0.7% to $23,877 million compared to the same period in 2010.

Operating Income Operating income increased by $32 million, or 8.2%, to $421 million in the third quarter of 2011 compared to the third quarter of 2010. Operating margin was 4.3% for the third quarter of 2011 compared to 4.1% in the same quarter in 2010. Year-to-date operating income for 2011 increased by $46 million, or 4.5%, to $1,069 million and resulted in an operating margin of 4.5%, compared to 4.3% in 2010. Retail operating income improved by $39 million in the third quarter and by $79 million year-to-date, offset in both periods by continued investment in the growth of the Financial Services segment, which resulted in a decline in operating income of $7 million in the third quarter and $33 million year-to-date.

Included in consolidated operating income are the following items:

- Incremental costs of $19 million (year-to-date – $70 million) related to investments in information technology and supply chain. These costs included the following charges:
    - $55 million (2010 – $40 million) in the third quarter and $129 million (2010 – $90 million) year-to-date related to depreciation and amortization;
    - $89 million (2010 – $80 million) in the third quarter and $226 million (2010 – $192 million) year-to-date related to other supply chain and information technology costs; and
    - A nil charge (2010 – $5 million) in the third quarter and $23 million (2010 – $26 million) year-to-date related to changes in the distribution network.
- A charge of $15 million (2010 - $9 million) in the third quarter and $23 million (2010 - $25 million) year-to-date related to the effect of share-based compensation net of equity forwards
- A $12 million charge related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms of collective agreements ratified in the third quarter of 2010. In the third quarter of 2010, ratification costs of $17 million were incurred; and
- A $14 million gain related to the sale of a portion of a property in North Vancouver, British Columbia.

On a year-to-date basis, consolidated operating income was also impacted by:

- A charge of $15 million related to certain prior years' commodity tax matters. This charge was incurred in the second quarter of 2011;
- A charge of $8 million related to an internal re-alignment of the business centred around the Company's two primary store formats, Discount and Conventional. These costs were incurred in the first quarter of 2011; and
- In 2010, a $26 million fixed asset impairment charge was recorded in connection with changes in the Company's distribution network.

(1) See Non-GAAP Financial Measures on page 19.

EBITDA[1] increased by $58 million, or 10.0%, to $639 million in the third quarter of 2011 compared to $581 million in the third quarter of 2010. EBITDA margin[1] increased in the third quarter of 2011 to 6.6% from 6.1% in the comparable period in 2010. Year-to-date EBITDA[1] increased by $99 million, or 6.6%, to $1,598 million compared to $1,499 million in the comparable period in 2010. Year-to-date EBITDA margin[1] improved to 6.7% compared to 6.3% for the same period last year.

Net Interest Expense and Other Financing Charges In the third quarter of 2011, net interest expense and other financing charges decreased $7 million, or 6.9%, to $95 million compared to the third quarter of 2010 primarily as a result of a decrease in interest expense due to the repayment of a $350 million, 6.50% Medium Term Note ("MTN") partially offset by an increase in interest expense as a result of issuances under President's Choice Bank's ("PC Bank") Guaranteed Investment Certificate ("GIC") program. Year-to-date net interest and other financing charges decreased $24 million, or 8.9% to $246 million compared to the same period in 2010. This decrease was mainly attributable to the decrease in long term debt in the first quarter of 2011 compared to 2010 and an increase in net interest income on financial derivative instruments.

Income Taxes The effective income tax rates for the third quarter and year-to-date 2011 were 27.6% (2010 – 31.4%) and 27.7% (2010 – 32.3%), respectively. Both the third quarter and year-to-date decreases in the effective income tax rates compared to the same periods in 2010 were primarily due to further reductions in the Federal and Ontario statutory income tax rates and a decrease in income tax expense related to certain prior year income tax matters.

Net Earnings Net earnings for the third quarter of 2011 increased by $39 million, or 19.8%, to $236 million compared to the third quarter of 2010 and year-to-date increased by $85 million, or 16.7%, to $595 million compared to the same period in 2010. Basic net earnings per common share for the third quarter increased by $0.13, or 18.3%, to $0.84 from $0.71 in the third quarter of 2010 and year-to-date increased by $0.27, or 14.7%, to $2.11 compared to $1.84 for the same period last year.

Basic net earnings per common share for the third quarter of 2011 and year-to-date were impacted by the following:

- A $0.05 (year-to-date – $0.18) charge related to the incremental costs for the Company's investment in information technology and supply chain;
- A $0.05 (2010 – $0.02) charge in the third quarter and a $0.07 (2010 – $0.06) year-to-date charge for the effect of share-based compensation net of equity forwards;
- A $0.03 charge in the third quarter and year-to-date related to the transition of certain Ontario conventional stores under collective agreements ratified in the third quarter of 2010 and a $0.04 charge in the third quarter of 2010 related to ratification costs;
- Income of $0.04 in the third quarter and year-to-date related to the gain recognized on the sale of a portion of a property in North Vancouver, British Columbia;
- A year-to-date charge of $0.04 (2010 – nil) related to certain prior years' commodity tax matters;
- A $0.02 year-to-date charge (2010 – nil) related to the internal re-alignment of the business; and
- A nil year-to-date charge (2010 – $0.06) related to the fixed asset impairment.

Reportable Operating Segments

Retail

For the periods ended October 8, 2011 and October 9, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011 (16 weeks)**	2010 (16 weeks)	% Change	**2011 (40 weeks)**	2010 (40 weeks)	% Change
Sales	**$ 9,563**	$ 9,377	2.0%	**$ 23,477**	$ 23,314	0.7%
Gross profit	**2,071**	2,060	0.5%	**5,251**	5,204	0.9%
Operating income	**397**	358	10.9%	**1,015**	936	8.4%
Same-store sales growth (decline)	**1.3%**	(0.4%)		**0.4%**	(0.3%)	
Gross profit percentage	**21.7%**	22.0%		**22.4%**	22.3%	
Operating margin	**4.2%**	3.8%		**4.3%**	4.0%	

(1) See Non-GAAP Financial Measures on page 19.

Sales Sales for the third quarter increased by 2.0% to $9,563 million compared to $9,377 million in the third quarter of 2010.

In the third quarter of 2011, the change in Retail sales over the same period in the prior year were driven by the following factors:

- Same-store sales growth was 1.3% (2010 – 0.4% decline);
- Sales growth in food was moderate;
- Sales in drugstore declined marginally, due to the continued impact of new generic versions of certain prescription drugs as well as regulatory changes enacted across several provinces throughout 2010 and 2011;
- Gas bar sales growth was strong as a result of higher retail gas prices and moderate volume growth;
- Sales in general merchandise, excluding apparel, declined moderately due to continued reductions in square footage and optimization of range and assortment of products;
- Increased apparel square footage led to a moderate increase in sales;
- The Company experienced moderate average quarterly internal food price inflation during the third quarter of 2011, which was lower than the average quarterly national food price inflation of 4.9% (2010 – 1.3%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores. In the third quarter of 2010, the Company's average quarterly internal food price index was flat; and
- During the third quarter of 2011, 7 corporate and franchised stores were opened and 2 corporate and franchised stores were closed, resulting in a net increase of 0.1 million square feet, or 0.2%.

For the first three quarters of the year, sales increased by 0.7%, or $163 million, to $23,477 million compared to the same period in 2010. The following factors, in addition to the quarterly factors mentioned above, further explain this increase:

- same-store sales growth was 0.4% (2010 – 0.3% decline); and
- 16 corporate and franchised stores were opened and 6 corporate and franchised stores were closed, resulting in a net increase of 0.3 million square feet, or 0.6%.

Gross Profit Gross profit increased by $11 million to $2,071 million (21.7% of sales) in the third quarter of 2011 compared to $2,060 million in the third quarter of 2010 (22.0% of sales). For the third quarter of 2011, the decline in gross profit percentage compared to the same period in the prior year was primarily driven by a higher penetration of lower margin gas bar sales and increased fuel costs. The $11 million increase in gross profit for the third quarter was mainly attributable to improved sales, improved control label profitability, a stronger Canadian dollar, growth and performance of the Company's franchise business and the shift of pharmaceutical professional allowances from selling, general and administrative expenses to gross profit. Increases in promotional pricing programs and transportation costs partially offset these improvements.

Year-to-date gross profit increased by $47 million to $5,251 million (22.4% of sales) compared to $5,204 million (22.3% of sales) in the comparable period of 2010. In addition to the quarterly factors described above, year-to-date gross profit and gross profit percentage were also positively impacted by improved shrink and the performance of the Company's T&T Supermarket Inc. business, partially offset by the timing of vendor programs.

Operating Income Operating income increased by $39 million, or 10.9%, to $397 million in the third quarter of 2011 compared to $358 million in the third quarter of 2010. Operating margin was 4.2% for the third quarter of 2011 compared to 3.8% in 2010. Year-to-date operating income for 2011 increased by $79 million, or 8.4%, to $1,015 million and resulted in an operating margin of 4.3% compared to 4.0% in the comparable period in 2010.

The increases in operating income and operating margin were mainly attributable to continued labour and other operating cost efficiencies, improvements in the performance of the Company's investments in franchisees, the gain recognized on the sale of a portion of a property in North Vancouver, British Columbia and increased gross profit as described above. These improvements were partially offset by foreign exchange losses, the incremental costs related to the investment in information technology and supply chain, costs related to the transition of certain Ontario conventional stores under the collective agreements ratified in the third quarter of 2010 and the impact of share-based compensation net of equity forwards. Included in operating income in the third quarter of 2010 were costs associated with the ratification of Ontario collective agreements.

Year-to-date operating income was also impacted by the prior year's commodity tax charge recorded in the second quarter of 2011 and the charge associated with the internal re-alignment of the business recorded in the first quarter of 2011. Included in 2010 year-to-date operating income was a fixed asset impairment charge in connection with changes in the Company's distribution network.

Financial Services

For the periods ended October 8, 2011 and October 9, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011 (16 weeks)**	2010 (16 weeks)	% Change	**2011 (40 weeks)**	2010 (40 weeks)	% Change
Revenue	**$ 164**	$ 158	3.8%	**$ 400**	$ 403	(0.7%)
Operating income	**24**	31	(22.6%)	**54**	87	(37.9%)
Earnings before income taxes	**10**	18	(44.4%)	**17**	55	(69.1%)

Unaudited (millions of Canadian dollars except where otherwise indicated)	**As at October 8, 2011**	As at October 9, 2010	% Change
Average quarterly net credit card receivables	**$ 1,942**	$ 1,927	0.8%
Credit card receivables	**1,911**	1,855	3.0%
Credit card receivables provision	**33**	36	(8.3%)
Annualized yield on average quarterly gross credit card receivables	**12.7%**	13.4%	
Annualized credit loss rate on average quarterly gross credit card receivables	**4.3%**	5.8%	

Revenue Revenue for the third quarter of 2011 increased by $6 million, or 3.8%, to $164 million compared to $158 million in the third quarter of 2010. The increase was primarily driven by increased credit card transaction values in the quarter resulting in higher interchange fee income. Year-to-date revenue declined by $3 million, or 0.7%, to $400 million compared to $403 million in 2010. The decrease was primarily due to lower credit card interest revenue driven by increased customer payment rates resulting from changing customer behaviours and more stringent credit risk management policies implemented in 2009, partially offset by increased interchange fee income as a result of higher credit card transaction values. Although these practices resulted in lower year-to-date revenues, they favourably impacted the annualized credit loss rate.

Operating Income and Earnings Before Income Taxes Operating income decreased by $7 million, or 22.6%, to $24 million in the third quarter of 2011 compared to the third quarter of 2010. (Year-to-date decrease of $33 million, or 37.9%, to $54 million in 2011 compared to 2010). Earnings before income taxes decreased by $8 million, or 44.4%, to $10 million compared to the third quarter of 2010. (Year-to-date decrease of $38 million, or 69.1%, to $17 million in 2011 compared to 2010). These decreases were attributable to significant marketing investments and customer acquisition costs, consistent with the Company's continued investment in the growth of the Financial Services segment.

Consolidated Financial Condition

Net Debt[(1)] As at October 8, 2011, net debt[(1)] was $4,413 million compared to $4,565 million as at January 1, 2011. The year-to-date improvement of $152 million is due to positive cash flows from operations driven by positive EBITDA[(1)], proceeds from fixed asset sales, and cash received on the issuance of common shares under the Company's stock option program. This was partially offset by fixed asset purchases, interest paid on debt obligations, cash dividends paid in the year and the repurchase of the Company's common shares under its NCIB program.

Financial Ratios Due to the transition to IFRS on January 2, 2011, rolling year ratios have only been provided for the rolling years ended October 8, 2011 and January 1, 2011.

(1) See Non-GAAP Financial Measures on page 19.

The Company's net debt[1] to equity[1] ratio was 0.72:1 at the end of the third quarter of 2011 compared to 0.82:1 at the end of the third quarter of 2010. The decrease in this ratio was due to the decrease in net debt[1] and the increase in net income described above.

The rolling net debt[1] to EBITDA[1] ratio was 2.1 times at the end of the third quarter of 2011 compared to 2.3 times at the end of 2010. The decrease in this ratio was attributable to the decrease in net debt[1] and the increase in rolling year EBITDA[1].

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 4.3 times at the end of the third quarter of 2011 from 3.8 times at the end of the third quarter of 2010.

The rolling year return on average net assets[1] was 12.2% for the third quarter of 2011 compared to 12.0% for the year ended January 1, 2011. This ratio increased due to an increase in rolling year operating income, which was partially offset by higher average net assets.

The rolling year return on average shareholders' equity at the end of the third quarter of 2011 was 13.4% compared to 12.6% at the end of 2010, due to the increase in rolling year net earnings partially offset by the increase in average shareholders' equity.

Equity Forward Contracts As at October 8, 2011, Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company, had equity forward contracts to buy 1.5 million (October 9, 2010 – 1.5 million; January 1, 2011 – 1.5 million) of the Company's common shares at an average forward price of $56.22 (October 9, 2010 – $56.27; January 1, 2011 – $56.26), including nil (October 9, 2010 – $0.05; January 1, 2011 – $0.04) per common share of interest expense. As at October 8, 2011 the cumulative interest and unrealized market loss of $29 million (October 9, 2010 – $23 million; January 1, 2011 – $24 million) was included in trade payables and other liabilities.

Liquidity and Capital Resources

Major Cash Flow Components

For the periods ended October 8, 2011 and October 9, 2010 (unaudited) (millions of Canadian dollars)	**2011 (16 weeks)**	2010 (16 weeks)	Change	**2011 (40 weeks)**	2010 (40 weeks)	Change
Cash flows from (used in):						
Operating activities	**$ 694**	$ 678	$ 16	**$ 1,194**	$ 1,446	$ (252)
Investing activities	**(363)**	(722)	359	**(442)**	(1,042)	600
Financing activities	**(125)**	(144)	19	**(627)**	(399)	(228)

Cash Flows from Operating Activities Cash flows from operating activities for the third quarter of 2011 were $694 million, which included EBITDA[1] of $639 million and an increase in non-cash working capital of $136 million. Cash flows from operating activities increased by $16 million in the third quarter of 2011 to $694 million from $678 million in 2010. On a year-to-date basis, cash flows from operating activities decreased by $252 million to $1,194 million compared to $1,446 million in 2010. The higher year-to-date cash flows from operations in 2010 were mainly due to more stringent vendor management policies related to the Company's trade payables and other liabilities, which resulted in a reduction in non-cash working capital. These policies were held constant in 2011 and therefore did not impact the change in non-cash working capital. The year over year decrease was partially offset by increased EBITDA[1] and a decrease in income taxes paid in 2011 compared to 2010.

Cash Flows used in Investing Activities Cash flows used in investing activities were $363 million in the third quarter of 2011 compared to $722 million in 2010. The decrease was primarily due to a reduction of security deposits in 2011 compared to an increase in 2010 in anticipation of a repayment of *Eagle Credit Card Trust* notes in the first quarter of 2011 and fewer fixed asset purchases in the current year.

(1) See Non-GAAP Financial Measures on page 19.

On a year-to-date basis, cash flows used in investing activities were $442 million compared to $1,042 million in the comparable period in 2010. The year-to-date change was primarily due to a reduction in security deposits due to the repayment of *Eagle Credit Card Trust* notes in the first quarter of 2011, a decrease in short term investments, and fewer fixed asset purchases.

Cash Flows used in Financing Activities Cash flows used in financing activities were $125 million in the third quarter of 2011 compared to $144 million in 2010. The decrease of $19 million was due to the issuance of GICs by PC Bank in 2011 and a decrease in interest paid, partially offset by an increase in dividend payments and the repurchase of common shares pursuant to the Company's Normal Course Issuer Bid.

On a year-to-date basis, cash flows used in financing activities increased to $627 million compared to $399 million in 2010. In 2011, the net repayments of long term debt increased consisting primarily of repayments of the $500 million *Eagle Credit Card Trust* Series 2006-I Notes and the $350 million 6.50% MTN partially offset by the issuance of $259 million in GICs by PC Bank. In 2010, the net repayments of long term debt consisted primarily of the repayment of a $300 million 7.10% MTN partially offset by the issuance of a $350 million 5.22% MTN. The increased repayments of long term debt in 2011 were partially offset by the securitization of credit card receivables in 2011 and the repurchase of securitized credit card receivables in 2010.

Post-Employment Defined Benefit Pension Plan Contributions During the first three quarters of 2011, the Company contributed $83 million (2010 – $75 million) to its registered funded defined benefit pension plans. The Company expects to contribute approximately $17 million to these plans during the remainder of 2011. The actual amount contributed 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 $800 million committed credit facility ("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 an MTN program. The Company may refinance maturing long term debt with MTNs 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 Credit Facility, which expires in March 2013, contains certain financial covenants. In addition to cash and short term investments, this facility is the primary source of liquidity for the Company and accrues interest based on short term floating interest rates. As at October 8, 2011 and October 9, 2010, the Company had not drawn on the Credit Facility.

During the third quarter of 2011, the Company amended its agreements for the Credit Facility and its USD $300 million private placement notes to include certain relevant IFRS adjustments in computing the financial metrics that are used in calculating the Company's financial covenants. These amendments largely served to neutralize the impact of IFRS on covenant calculations. As at October 8, 2011, the Company was in compliance with all of its covenants.

PC Bank also obtains short-term and long-term financing through its GIC Program. During the third quarter of 2011, PC Bank sold $80 million (2010 – $7 million) and $259 million (2010 – $7 million) year-to-date in GICs through independent brokers. As at October 8, 2011, the Company had recorded in long term debt $274 million (October 9, 2010 – $7 million; January 1, 2011 – $18 million) of outstanding GICs, of which $47 million (October 9, 2010 – $3 million; January 1, 2011 – $5 million) was recorded as long term debt due within one year. During the third quarter of 2011, $3 million (October 9, 2010 – nil; January 1, 2011 – nil) of GICs matured and were repaid.

The credit ratings of the Company as disclosed in the 2010 Annual Report did not change in the third quarter of 2011. Subsequent to the third quarter of 2011, Standard & Poor's reaffirmed its credit rating and outlook for the Company and Dominion Bond Rating Service reaffirmed its credit rating and trend for the Company.

Subsequent to the third quarter of 2011, the Company entered into an agreement to cash collateralize certain of its uncommitted credit facilities up to an amount of $85 million resulting in lower costs.

Independent Securitization Trusts 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 certain independent securitization trusts pursuant to co-ownership agreements. PC Bank purchases credit card receivables from and sells credit card receivables to these independent securitization trusts from time to time depending on PC Bank's financing requirements. During the third quarter of 2011, PC Bank amended and extended the maturity date for one of its independent securitization trust agreements from the third quarter of 2012 to the third quarter of 2014, with no material impact to other terms and conditions.

In addition to PC Bank's securitized credit card receivables, the independent securitization trusts' recourse is limited to standby letters of credit arranged by the Company of $81 million as at October 8, 2011 (October 9, 2010 – $103 million; January 1, 2011 – $48 million), which is based on a portion of the securitized amount.

Independent Funding Trusts During the second quarter of 2011, the $475 million revolving committed credit facility that is the source of funding to the independent funding trusts was renewed and extended for a 3 year period. As a result of the renewal, the Company's credit enhancement was reduced from 15% to 10%. Other terms and conditions remain substantially the same.

Dividends During the third 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 October 1, 2011 and $0.37 (2010 – $0.37) per Second Preferred Shares, Series A with a payment date of October 30, 2011. During the year of 2011, the Company's Board declared dividends totalling $0.63 per common share (2010 – $0.63) and $1.12 per Second Preferred Shares, Series A (2010 – $1.12). 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. Subsequent to the end of the third quarter of 2011, the Board declared a quarterly dividend of $0.21 per common share payable December 30, 2011 and $0.37 per Second Preferred Share, Series A, payable January 31, 2012.

Normal Course Issuer Bid ("NCIB") During the third quarter of 2011, the Company purchased for cancellation 526,267 (2010 – nil) and 606,267 (2010 – nil) common shares year-to-date. On a year-to-date basis, the Company paid $22 million to repurchase common shares under the NCIB, resulting in a charge to retained earnings of $19 million for the premium on the common shares, and a reduction in common share capital of $3 million. During the second quarter of 2011, the Company renewed its NCIB to purchase on the Toronto Stock Exchange, or enter into equity derivatives to purchase, up to 14,096,437 (2010 – 13,865,435) of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, the Company may purchase its shares at the then market price of such shares.

Dividend Reinvestment Plan ("DRIP") During the third quarter of 2011, the Company issued nil (2010 – 2,193,185), year-to-date 1,142,380 (2010 – 3,313,638) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in incremental equity to the Company of nil (2010 – $84 million), year-to-date $43 million (2010 – $125 million). During the first quarter of 2011, the Board approved the discontinuance of the DRIP after the dividend payment on April 1, 2011. The DRIP raised approximately $330 million total common share equity since 2009.

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)	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
(millions of Canadian dollars except where otherwise indicated)	**2011 (16 weeks)**	**2010 (16 weeks)**	2011 (12 weeks)	2010 (12 weeks)	2011 (12 weeks)	2010 (12 weeks)	2010 (12 weeks)	2009 (12 weeks – CGAAP)
Revenue	**$ 9,727**	**$ 9,535**	$ 7,278	$ 7,269	$ 6,872	$ 6,913	$ 7,119	$ 7,311
Net earnings	**$ 236**	**$ 197**	$ 197	$ 181	$ 162	$ 132	$ 165	$ 165
Net earnings per common share								
Basic ($)	**$ 0.84**	**$ 0.71**	$ 0.70	$ 0.65	$ 0.58	$ 0.48	$ 0.59	$ 0.60
Diluted ($)	**$ 0.83**	**$ 0.70**	$ 0.69[1]	$ 0.64	$ 0.56	$ 0.45	$ 0.58	$ 0.59
Average national food price inflation (as measured by CPI)	**4.9%**	**1.3%**	4.0%	0.3%	2.5%	0.7%	1.5%	1.6%
Retail same-store sales growth (decline)	**1.3%**	**(0.4%)**	(0.4%)	(0.3%)	(0.1%)	0.3%	(1.6%)	(7.8%)[2]

(1) Amended to reflect immaterial adjustments.
(2) As compared to a 13-week quarter in 2008.

Since the fourth quarter of 2009, net retail square footage has increased by 0.4 million square feet to 50.9 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, internal business re-alignment charges, charges related to certain prior years' commodity tax matters, fixed asset impairment charges, gains recognized on fixed asset sales and charges related to collective agreements. Earnings in the third and fourth quarters of 2010 were pressured by investments in pricing. Quarterly net earnings are also affected by seasonality and the timing of holidays. The impact of seasonality is greatest in the fourth quarter and least in the first quarter.

Internal Control over Financial Reporting

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

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial 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 third quarter of 2011 that have materially affected, or are 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 infrastructure. In 2010, the Company began to deploy its new ERP system. This project, along with other systems implementations planned for 2011 and beyond, together constitute one of the largest technology infrastructure programs ever implemented by the Company and are 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. During the second and third quarters of 2011 and subsequent to the third quarter of 2011, the Company successfully rolled out the final foundational waves of its ERP implementation to its merchandising organization, which included a number of critical operating enhancements and expanded operating functionality related to its merchandising product listings. 2011 continues to be a critical year for the ERP implementation with continued focus on ensuring the integrity of converted data while preparing for increased activity in the ERP system entering into 2012. Completing the ERP deployment will require continued focus and significant investment. 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 information technology 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 introduced a new organizational structure centred around the Company's two primary store formats, Discount and Conventional. In addition, on August 2, 2011, the newly appointed President joined the Company. 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 The Company is subject to tax and regulatory audits from various government and regulatory agencies on an on-going basis. As a result, from time to time, taxing and regulatory authorities may disagree with the positions and conclusions taken by the Company in its tax and regulatory filings or change legislation, which could lead to assessments or reassessments. These assessments or reassessments may have a material impact on the Company in future periods. During the second quarter of 2011, the Company was advised by the Quebec Revenue Agency that it would be reassessed an amount for certain prior years' commodity tax matters and also received a proposed reassessment from the Quebec Revenue Agency regarding the Company's entitlement to certain previously claimed commodity tax credits. Subsequent to the third quarter of 2011, the Company received the final reassessment from the Quebec Revenue Agency, which did not result in a material charge to the Company.

In 2010 and 2011, the provincial governments of Quebec, Ontario, Alberta, Saskatchewan, Nova Scotia and British Columbia introduced amendments to the regulation of generic prescription drug prices paid by provincial governments pursuant to public drug benefit plans. Under these amendments, costs of generic drugs paid by the provincial drug plans are being reduced, and in Ontario, the current system of drug manufacturers paying professional allowances to pharmacies will be eliminated. The amendments also reduce the costs of generic drugs purchased out-of-pocket or through private employer drug plans. The Company continues to identify opportunities to mitigate the impact of these amendments, including the introduction of programs to add new services and enhance existing services to attract customers. The amendments could have a material impact on the financial results of the Company if it is not able to effectively mitigate their negative impact.

Post-Employment Defined Benefit Contributions The Company manages the assets in its defined benefit pension plans by engaging professional investment managers who operate under prescribed investment policies and procedures in respect of permitted investments and asset allocations. The future contributions to the Company's defined benefit pension plans are impacted by a number of variables, including the investment performance of the plan assets and the discount rate used to value the liabilities of the plans. The Company regularly monitors and assesses plan performance and the impact of changes in participant demographics, changes in capital markets and other economic factors that may impact funding requirements, employee future benefit costs and actuarial assumptions.

During 2011, there were decreases in the discount rates and a lower than expected return on assets compared to the estimates determined at the beginning of the year. Accordingly post-employment benefit assets and liabilities reflected on the Company's balance sheet were re-measured. The impact of these adjustments resulted in actuarial losses before tax recognized in other comprehensive loss of $133 million in

the third quarter ($218 million year-to-date). If capital market returns continue to be below assumed levels, or if the discount rates do not increase, the Company may be required to make contributions to its registered funded defined benefit pension plans in excess of those currently expected in future years, which in turn may have a negative effect on the Company's financial performance and cash flows.

Labour Relations A majority of the Company's store level and distribution centre workforce is unionized. Renegotiating collective agreements may result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. In 2011, 49 collective agreements affecting approximately 15,000 Loblaw colleagues and franchisee employees will expire including an agreement covering approximately 11,000 *nofrills* franchisee employees in Ontario which expired in June, 2011. The negotiation process for the renewal of the *nofrills* agreement is underway. During the third quarter a provincial conciliator was appointed to assist the process. No agreement was reached and subsequent to the end of the quarter the union received a strike mandate from their members. No strike deadlines have been communicated and the negotiation process is expected to continue within the fourth quarter of 2011. There can be no assurance as to the outcome of these negotiations or the timing of their completion. The Company will also continue to negotiate the collective agreements carried over from prior years. Although the Company attempts to mitigate work stoppages and disputes through early negotiations, work stoppages or slowdowns remain possible.

Transition to IFRS

The Company's unaudited interim period condensed consolidated financial statements were prepared in accordance with IFRS and IAS 34, "Interim Financial Reporting", including its 2010 comparative figures.

Reconciliations prepared in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards" are provided in note 15 to the unaudited interim period condensed consolidated financial statements. The IFRS 1 reconciliations for the first quarter of 2011, year ended 2010 and opening IFRS balance sheet 2010 are included in note 16 of the Company's 2011 First Quarter Report.

Future Accounting Standards

Consolidated Financial Statements On May 12, 2011, IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"). This IFRS replaces portions of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") that addresses consolidation, and supersedes Standing Interpretations Committee ("SIC") Interpretation 12, "Consolidation – Special Purpose Entities" in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended for the issuance of IFRS 10 and retains guidance only for separate financial statements.

Joint Arrangements On May 12, 2011, the IASB issued IFRS 11, "Joint Arrangements" ("IFRS 11"). IFRS 11 supersedes IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, "Investments in Associates and Joint Ventures" has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

Disclosure of Interests in Other Entities On May 12, 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"). This IFRS standard requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS standard enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Company is currently assessing the impact of these new standards and amendments on its consolidated financial statements.

Fair Value Measurement On May 12, 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Employee Benefits On June 16, 2011 the IASB revised IAS 19, "Employee Benefits". The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Presentation of Financial Statements On June 16, 2011 the IASB issued amendments to IAS 1, "Presentation of Financial Statements". The amendments enhance the presentation of other comprehensive income in the financial statements, primarily by requiring the components of other comprehensive income to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

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 there is no impact on its financial statements as a result of the amendment.

Financial Instruments On November 12, 2009, the IASB 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 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 remains committed to consistently improve in execution in an increasingly competitive environment. With an ongoing focus on the successful implementation of its information technology and supply chain, the Company continues to expect these investments will negatively impact operating income. As a result of rephasing activities, the Company expects incremental costs related to investments in infrastructure to be approximately $20 million in the fourth quarter. The full-year incremental spend is now expected to be $90 million, lower than the $100 million disclosed in the second quarter of 2011. The Company also expects costs associated with the transition of certain Ontario conventional stores under collective agreements to range from $20 million to $30 million in the fourth quarter of 2011 for a full-year estimate of $32 million to $42 million. In addition, the IFRS fixed asset impairment standard may result in volatility in our earnings compared to the CGAAP standard. In the fourth quarter of 2010, the Company recorded an impairment recovery of $7 million. Indicators that may arise as we finalize store level budgets in the fourth quarter may prompt asset impairment evaluations, which will determine whether any impairment or recovery will be required in 2011.

The Company's estimate for capital expenditures in 2011 continues to be approximately $1 billion with $640 million invested year-to-date.

(1) To be read in conjunction with "Forward-Looking Statements" on page 5.

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 forty week periods ended October 8, 2011 and October 9, 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.

For the periods ended October 8, 2011 and October 9, 2010 (unaudited) (millions of Canadian dollars)	**2011 (16 weeks)**	2010 (16 weeks)	**2011 (40 weeks)**	2010 (40 weeks)
Net earnings	**$ 236**	$ 197	**$ 595**	$ 510
Add impact of the following:				
Income taxes	**90**	90	**228**	243
Net interest expense and other financing charges	**95**	102	**246**	270
Operating income	**421**	389	**1,069**	1,023
Add impact of the following:				
Depreciation and amortization	**218**	192	**529**	476
EBITDA	**$ 639**	$ 581	**$ 1,598**	$ 1,499

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 related fair value of financial derivatives less cash and cash equivalents, short term investments, security deposits and the related fair value of financial derivatives. The Company believes that this measure is useful in assessing the amount of financial leverage employed.

Unaudited (millions of Canadian dollars)	**As at October 8, 2011**	As at October 9, 2010	As at January 1, 2011
Bank indebtedness	**$ –**	$ –	$ 10
Short term debt	**905**	1,135	535
Long term debt due within one year	**86**	876	902
Long term debt	**5,465**	4,583	5,198
Certain other liabilities	**35**	37	35
Fair value of financial derivatives related to the above	**30**	37	37
	6,521	6,668	6,717
Less: Cash and cash equivalents	**987**	732	857
Short term investments	**820**	813	754
Security deposits	**184**	350	354
Fair value of financial derivatives related to the above	**117**	178	187
	2,108	2,073	2,152
Net debt	**$ 4,413**	$ 4,595	$ 4,565

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.

Unaudited (millions of Canadian dollars)	**As at October 8, 2011**	As at October 9, 2010	As at January 1, 2011
Total assets	**$ 16,909**	$ 16,436	$ 16,841
Less: Cash and cash equivalents	**987**	732	857
Short term investments	**820**	813	754
Security deposits	**184**	350	354
Trade payables and other liabilities	**3,307**	3,244	3,522
Net assets	**$ 11,611**	$ 11,297	$ 11,354

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.

Unaudited (millions of Canadian dollars)	**As at October 8, 2011**	As at October 9, 2010	As at January 1, 2011
Capital securities	**$ 221**	$ 220	$ 221
Shareholders' equity	**5,948**	5,395	5,603
Equity	**$ 6,169**	$ 5,615	$ 5,824

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Condensed Consolidated Statements of Earnings

For the periods ended October 8, 2011 and October 9, 2010 Unaudited (millions of Canadian dollars except where otherwise indicated)	**2011 (16 weeks)**	2010 (16 weeks)	**2011 (40 weeks)**	2010 (40 weeks)
Revenue	**$ 9,727**	$ 9,535	**$ 23,877**	$ 23,717
Cost of Merchandise Inventories Sold (note 7)	**7,494**	7,318	**18,230**	18,114
Selling, General and Administrative Expenses	**1,812**	1,828	**4,578**	4,580
Operating Income	**421**	389	**1,069**	1,023
Net interest expense and other financing charges (note 3)	**95**	102	**246**	270
Earnings Before Income Taxes	**326**	287	**823**	753
Income taxes (note 4)	**90**	90	**228**	243
Net Earnings	**$ 236**	$ 197	**$ 595**	$ 510
Net Earnings Per Common Share ($) (note 5)				
Basic	**$ 0.84**	$ 0.71	**$ 2.11**	$ 1.84
Diluted	**$ 0.83**	$ 0.70	**$ 2.09**	$ 1.79

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

Condensed Consolidated Statements of Comprehensive Income

For the periods ended October 8, 2011 and October 9, 2010 Unaudited (millions of Canadian dollars)	**2011 (16 weeks)**	2010 (16 weeks)	**2011 (40 weeks)**	2010 (40 weeks)
Net earnings	**$ 236**	$ 197	**$ 595**	$ 510
Net loss on derivatives designated as cash flow hedges	**–**	(1)	**–**	(2)
Reclassification of loss on derivatives designated as cash flow hedges to net earnings	**–**	1	**–**	5
	–	–	**–**	3
Net defined benefit plan actuarial loss (note 11)	**(99)**	(68)	**(162)**	(149)
Other comprehensive loss, net of tax	**(99)**	(68)	**(162)**	(146)
Total Comprehensive Income	**$ 137**	$ 129	**$ 433**	$ 364

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

Condensed 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 as at January 1, 2011	**$ 1,475**	**$ 4,122**	**$ 1**	**$ 5**	**$ 5,603**
Net earnings	**–**	**595**	**–**	**–**	**595**
Other comprehensive loss (note 11)	**–**	**(162)**	**–**	**–**	**(162)**
Total Comprehensive Income	**–**	**433**	**–**	**–**	**433**
Dividend Reinvestment Plan (note 10)	**43**	**–**	**–**	**–**	**43**
Effect of share-based compensation (note 12)	**25**	**–**	**44**	**–**	**69**
Purchased for cancellation (note 10)	**(3)**	**(19)**	**–**	**–**	**(22)**
Dividends declared per common share ($) – $0.63	**–**	**(178)**	**–**	**–**	**(178)**
	65	**236**	**44**	**–**	**345**
Balance as at October 8, 2011	**$ 1,540**	**$ 4,358**	**$ 45**	**$ 5**	**$ 5,948**

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 as at January 3, 2010	$ 1,308	$ 3,771	$ –	$ 1	$ 5,080
Net earnings	–	510	–	–	510
Other comprehensive (loss) income (note 11)	–	(149)	–	3	(146)
Total Comprehensive Income	–	361	–	3	364
Dividend Reinvestment Plan (note 10)	125	–	–	–	125
Effect of share-based compensation (note 12)	–	–	1	–	1
Dividends declared per common share ($) – $0.63	–	(175)	–	–	(175)
	125	186	1	3	315
Balance as at October 9, 2010	$ 1,433	$ 3,957	$ 1	$ 4	$ 5,395

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

Condensed Consolidated Balance Sheets

Unaudited (millions of Canadian dollars)	**As at October 8, 2011**	As at October 9, 2010	As at January 1, 2011
Assets			
Current Assets			
Cash and cash equivalents (note 6)	**$ 987**	$ 732	$ 857
Short term investments	**820**	813	754
Accounts receivable	**404**	377	366
Credit card receivables (note 8)	**1,911**	1,855	1,997
Inventories (note 7)	**2,028**	2,013	1,956
Income taxes recoverable	**–**	–	8
Prepaid expenses and other assets	**152**	104	83
Assets held for sale	**30**	81	71
Total Current Assets	**6,332**	5,975	6,092
Fixed Assets	**8,486**	8,069	8,377
Investment Properties	**75**	69	74
Goodwill and Intangible Assets	**1,023**	1,029	1,026
Deferred Income Taxes	**224**	283	227
Security Deposits	**184**	350	354
Franchise Loans Receivable	**316**	330	314
Other Assets	**269**	331	377
Total Assets	**$ 16,909**	$ 16,436	$ 16,841
Liabilities			
Current Liabilities			
Bank indebtedness	**$ –**	$ –	$ 10
Short term debt (note 8)	**905**	1,135	535
Trade payables and other liabilities	**3,307**	3,244	3,522
Income taxes payable	**10**	39	–
Provisions	**48**	64	62
Long term debt due within one year (note 9)	**86**	876	902
Total Current Liabilities	**4,356**	5,358	5,031
Provisions	**49**	43	43
Long Term Debt (note 9)	**5,465**	4,583	5,198
Deferred Income Taxes	**26**	28	35
Capital Securities	**221**	220	221
Other Liabilities	**844**	809	710
Total Liabilities	**10,961**	11,041	11,238
Shareholders' Equity			
Common Share Capital (note 10)	**1,540**	1,433	1,475
Retained Earnings	**4,358**	3,957	4,122
Contributed Surplus (note 12)	**45**	1	1
Accumulated Other Comprehensive Income	**5**	4	5
Total Shareholders' Equity	**5,948**	5,395	5,603
Total Liabilities and Shareholders' Equity	**$ 16,909**	$ 16,436	$ 16,841

Contingent liabilities (note 13).

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

Condensed Consolidated Cash Flow Statements

For the periods ended October 8, 2011 and October 9, 2010 Unaudited (millions of Canadian dollars)	**2011 (16 weeks)**	2010 (16 weeks)	**2011 (40 weeks)**	2010 (40 weeks)
Operating Activities				
Net earnings	**$ 236**	$ 197	**$ 595**	$ 510
Income taxes (note 4)	**90**	90	**228**	243
Net interest expense and other financing charges (note 3)	**95**	102	**246**	270
Depreciation and amortization	**218**	192	**529**	476
Income taxes paid	**(66)**	(61)	**(162)**	(217)
Interest received	**6**	17	**42**	40
Change in non-cash working capital	**136**	99	**(271)**	51
Fixed assets and other related impairments	**–**	(5)	**9**	37
Other	**(21)**	47	**(22)**	36
Cash Flows from Operating Activities	**694**	678	**1,194**	1,446
Investing Activities				
Fixed asset purchases	**(324)**	(433)	**(640)**	(753)
Change in short term investments	**(74)**	(126)	**(33)**	(179)
Proceeds from fixed asset sales	**45**	21	**51**	37
Change in franchise investments and other receivables	**(20)**	(17)	**3**	(17)
Change in security deposits	**10**	(159)	**177**	(109)
Other	**–**	(8)	**–**	(21)
Cash Flows used in Investing Activities	**(363)**	(722)	**(442)**	(1,042)
Financing Activities				
Change in bank indebtedness	**–**	(14)	**(10)**	(10)
Change in short term debt (note 8)	**–**	–	**370**	(90)
Long term debt				
Issued (note 9)	**104**	15	**320**	372
Retired (note 9)	**(28)**	(9)	**(893)**	(315)
Interest paid	**(64)**	(103)	**(277)**	(306)
Dividends paid (note 10)	**(118)**	(33)	**(134)**	(50)
Common shares				
Issued (note 12)	**–**	–	**19**	–
Retired (note 10)	**(19)**	–	**(22)**	–
Cash Flows used in Financing Activities	**(125)**	(144)	**(627)**	(399)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**7**	1	**5**	(4)
Change in Cash and Cash Equivalents	**213**	(187)	**130**	1
Cash and Cash Equivalents, Beginning of Period	**774**	919	**857**	731
Cash and Cash Equivalents, End of Period	**$ 987**	$ 732	**$ 987**	$ 732

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

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

For the periods ended October 8, 2011 and October 9, 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" or "Loblaw".

The Company's parent is George Weston Limited which owns approximately 63% of the Company. The Company's ultimate parent is Wittington Investments, Limited.

The Company has two reportable operating segments: "Retail" and "Financial Services" (see note 14).

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"). The unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company's 2010 annual financial statements. In addition, for supplemental annual disclosures, see note 17 of the Company's first quarter 2011 unaudited interim period condensed consolidated financial statements. An explanation of how the transition from Canadian generally accepted accounting principles ("CGAAP") to International Financial Reporting Standards ("IFRS" or "GAAP") 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 the Company's first quarter report to shareholders for the 12 weeks ending March 26, 2011.

These unaudited interim period condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on November 15, 2011.

Basis of Preparation The unaudited interim period condensed consolidated financial statements were prepared on a historical cost basis except for certain financial instruments carried at fair value. Liabilities for cash settled share-based compensation arrangements are measured at fair value as described in note 12 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 significant accounting policies as disclosed in the Company's first quarter 2011 unaudited consolidated financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements.

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" ("IAS 27"). 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.

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

Consolidated Financial Statements On May 12, 2011, IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"). This IFRS replaces portions of IAS 27 that addresses consolidation, and supersedes SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended for the issuance of IFRS 10 and retains guidance only for separate financial statements.

Joint Arrangements On May 12, 2011, the IASB issued IFRS 11, "Joint Arrangements" ("IFRS 11"). IFRS 11 supersedes IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, "Investments in Associates and Joint Ventures" has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

Disclosure of Interests in Other Entities On May 12, 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"). This IFRS standard requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS standard enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Company is currently assessing the impact of these new standards and amendments on its consolidated financial statements.

Fair Value Measurement On May 12, 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Employee Benefits On June 16, 2011 the IASB revised IAS 19, "Employee Benefits". The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Presentation of Financial Statements On June 16, 2011 the IASB issued amendments to IAS 1, "Presentation of Financial Statements". The amendments enhance the presentation of other comprehensive income in the financial statements, primarily by requiring the components of other comprehensive income to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

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 there is no impact on its financial statements as a result of the amendment.

Financial Instruments On November 12, 2009, 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 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

For the periods ended October 8, 2011 and October 9, 2010 (millions of Canadian dollars)	**2011 (16 weeks)**	2010 (16 weeks)	**2011 (40 weeks)**	2010 (40 weeks)
Interest expense and other financing charges:				
Long term debt	**$ 86**	$ 90	**$ 215**	$ 224
Defined benefit obligations	**27**	27	**69**	68
Borrowings related to credit card receivables	**11**	13	**33**	32
Franchise Trust II loans	**4**	4	**12**	12
Dividends on capital securities	**4**	4	**11**	11
Less: Interest capitalized to fixed assets	**–**	–	**(1)**	–
	132	138	**339**	347
Interest income:				
Expected return on pension plan assets	**(25)**	(23)	**(62)**	(58)
Accretion income	**(6)**	(4)	**(15)**	(12)
Financial derivative instruments	**(5)**	(6)	**(11)**	(3)
Short term interest income	**(1)**	(3)	**(5)**	(4)
	(37)	(36)	**(93)**	(77)
Net interest expense and other financing charges	**$ 95**	$ 102	**$ 246**	$ 270

Note 4. Income Taxes

The effective income tax rates for the third quarter and year-to-date 2011 were 27.6% (2010 – 31.4%) and 27.7% (2010 – 32.3%), respectively. Both the third quarter and year-to-date decreases in the effective income tax rates compared to the same periods in 2010 were primarily due to further reductions in the Federal and Ontario statutory income tax rates and a decrease in income tax expense related to certain prior year income tax matters.

Note 5. Basic and Diluted Net Earnings per Common Share

For the periods ended October 8, 2011 and October 9, 2010 (millions of Canadian dollars except where otherwise indicated)	**2011 (16 weeks)**	2010 (16 weeks)	**2011 (40 weeks)**	2010 (40 weeks)
Net earnings for basic earnings per share	**$ 236**	$ 197	**$ 595**	$ 510
Dividends on capital securities (note 3)	**4**	–	**11**	–
Cash settled share-based compensation	**–**	(1)	**–**	–
Impact of equity forwards	**–**	(1)	**–**	(10)
Net earnings for diluted earnings per share	**$ 240**	$ 195	**$ 606**	$ 500
Weighted average common shares outstanding (in millions)	**282.0**	278.4	**281.6**	277.4
Dilutive effect of share-based compensation (in millions)	**0.5**	–	**0.7**	–
Dilutive effect of equity forwards (in millions)	**–**	0.5	**–**	0.7
Dilutive effect of capital securities (in millions)	**6.4**	–	**6.4**	–
Dilutive effect of certain other liabilities (in millions)	**1.0**	0.9	**1.0**	0.9
Diluted weighted average common shares outstanding (in millions)	**289.9**	279.8	**289.7**	279.0
Basic net earnings per common share ($)	**$ 0.84**	$ 0.71	**$ 2.11**	$ 1.84
Diluted net earnings per common share ($)	**$ 0.83**	$ 0.70	**$ 2.09**	$ 1.79

For the third quarter of 2011, 8,787,879 (2010 – 12,325,389) and 8,688,052 (2010 – 14,961,506) year-to-date 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 October 8, 2011**	As at October 9, 2010	As at January 1, 2011
Cash	**$ 191**	$ 52	$ 75
Cash equivalents:			
Bankers' acceptances	**38**	427	240
Government treasury bills	**531**	73	224
Bank term deposits	**100**	40	200
Corporate commercial paper	**102**	140	113
Other	**25**	–	5
Cash and cash equivalents	**$ 987**	$ 732	$ 857

As at October 8, 2011, USD $1,088 million (October 9, 2010 – USD $1,026 million, January 1, 2011 – USD $1,033 million) was included in cash and cash equivalents, short term investments and security deposits.

In the third quarter of 2011, the Company recognized an unrealized foreign currency exchange gain of $65 million (2010 – loss of $10 million) and a gain of $45 million (2010 – loss of $39 million) year-to-date as a result of translating its United States dollar denominated cash and cash equivalents, short term investments and security deposits, of which a gain of $7 million (2010 – $1 million) in the third quarter of 2011 and $5 million (2010 – loss of $4 million) year-to-date related to cash and cash equivalents, which was partially offset in operating income by corresponding gains (losses) on cross currency swaps.

Note 7. Inventories

Inventories recorded as at October 8, 2011, relate entirely to the Retail segment. As at the end of the third quarter, the Company recorded $16 million (October 9, 2010 – $13 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 October 8, 2011 and October 9, 2010.

Note 8. Short Term Debt

President's Choice Bank ("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 certain independent securitization trusts pursuant to co-ownership agreements. PC Bank purchases credit card receivables from and sells credit card receivables to these independent securitization trusts from time to time depending on PC Bank's financing requirements. Due to the retention of substantially all of the risks and rewards on the credit card receivables, 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 9) and is carried at amortized cost. As at October 8, 2011, $905 million (October 9, 2010 – $1,135 million; January 1, 2011 – $535 million) was outstanding relating to the liability of independent securitization trusts and was recorded as short term debt. During the third quarter of 2011, PC Bank amended and extended the maturity date of one of its independent securitization trust agreements from the third quarter of 2012 to the third quarter of 2014, with no material impact to other terms and conditions.

During the third quarter of 2011, PC Bank did not securitize any additional receivables. On a year-to-date basis, PC Bank securitized $370 million (2010 – nil) of credit card receivables and repurchased nil (2010 – $90 million) of co-ownership interests in the securitized credit card receivables from independent securitization trusts. In addition to PC Bank's securitized credit card receivables, the independent securitization trusts' recourse is limited to standby letters of credit arranged by the Company as at October 8, 2011 of $81 million (October 9, 2010 – $103 million; January 1, 2011 – $48 million) which is based on a portion of the securitized amount.

Note 9. Long Term Debt

During the third quarter of 2011, PC Bank sold $80 million (2010 – $7 million) and $259 million (2010 – $7 million) year-to-date in Guaranteed Investment Certificates ("GICs") through independent brokers. As at October 8, 2011, the Company had recorded in long term debt $274 million (October 9, 2010 – $7 million; January 1, 2011 – $18 million) of outstanding GICs, of which $47 million (October 9, 2010 – $3 million; January 1, 2011 – $5 million) was recorded as long term debt due within one year. During the third quarter of 2011, $3 million (October 9, 2010 – nil; January 1, 2011 – nil) of GICs matured and were repaid.

As at October 8, 2011 and October 9, 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.

During the second quarter of 2011, the $475 million revolving committed credit facility that is the source of funding to the independent funding trust was renewed and extended for a 3-year period. As a result of the renewal, the Company's credit enhancement was reduced from 15% to 10%. Other terms and conditions remain substantially the same.

During the first quarter of 2011, a $350 million 6.50% medium term note issued by the Company due January 19, 2011 and the $500 million senior and subordinated notes issued by *Eagle Credit Card Trust* due March 17, 2011 matured and were repaid.

During the second quarter of 2010, the Company issued $350 million 5.22% principal amount of unsecured Medium Term Notes, Series 2-B pursuant to its Medium Term Notes, Series 2 program. Also, during the second quarter of 2010, the $300 million, 7.10% medium term note matured and was repaid.

The Company's $800 million committed credit facility and its USD $300 million private placement notes contain certain financial covenants. During the third quarter of 2011, the Company amended these agreements to include certain relevant IFRS adjustments in computing the financial metrics that are used in calculating the Company's financial covenants. These amendments largely served to neutralize the impact of IFRS on covenant calculations. As at October 8, 2011, the Company was in compliance with all of its covenants.

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 are recorded in operating income. Amounts remaining in accumulated other comprehensive income will be reclassified to net earnings as the hedged debt matures. As at October 8, 2011, $312 million (October 9, 2010 – $303 million; January 1, 2011 – $300 million) of USD private placement notes was recorded as long term debt.

Note 10. Common Share Capital

At the end of the third quarter of 2011, the Company's outstanding common share capital was comprised of common shares, an unlimited number of which were authorized and 281,746,129 (October 9, 2010 – 279,501,896; January 1, 2011 – 280,578,130) were issued and outstanding.

Dividends ($) During the third quarter of 2011, the Company's Board declared dividends of $0.21 (2010 – $0.21) per common share with a payment date of October 1, 2011 and $0.37 (2010 – $0.37) per Second Preferred Shares, Series A with a payment date of October 30, 2011. During the year of 2011, the Company's Board declared dividends totalling $0.63 per common share (2010 – $0.63) and $1.12 per Second Preferred Shares, Series A (2010 – $1.12). For financial statement presentation purposes, Second Preferred Shares, Series A dividends of $4 million (2010 – $4 million), year-to-date $11 million (2010 – $11 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 third quarter of 2011, the Board declared a quarterly dividend of $0.21 per common share payable December 30, 2011, and $0.37 per Second Preferred Share, Series A, payable January 31, 2012.

Normal Course Issuer Bid ("NCIB") During the third quarter of 2011, the Company purchased for cancellation 526,267 (2010 – nil) and 606,267 (2010 – nil) common shares year-to-date. On a year-to-date basis, the Company paid $22 million to repurchase common shares under the NCIB, resulting in a charge to retained earnings of $19 million for the premium on the common shares, and a reduction in common share capital of $3 million. During the second quarter of 2011, the Company renewed its NCIB to purchase on the Toronto Stock Exchange, or enter into equity derivatives to purchase, up to 14,096,437 (2010 – 13,865,435) of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, the Company may purchase its shares at the then market price of such shares.

Dividend Reinvestment Plan ("DRIP") During the third quarter of 2011, the Company issued nil (2010 – 2,193,185), year-to-date 1,142,380 (2010 – 3,313,638) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in incremental equity to the Company of nil (2010 – $84 million), year-to-date $43 million (2010 – $125 million). During the first quarter of 2011, the Board approved the discontinuance of the DRIP after the dividend payment on April 1, 2011. The DRIP raised approximately $330 million total common share equity since 2009.

Note 11. Post-Employment and Other Long Term Employee Benefits

The costs/(income) related to the Company's post-employment and other long term employee benefits were recorded as follows:

For the periods ended October 8, 2011 and October 9, 2010 (millions of Canadian dollars)	**2011 (16 weeks)**	2010 (16 weeks)	**2011 (40 weeks)**	2010 (40 weeks)
Post employment benefit cost recognized in operating income	**$ 39**	$ 38	**$ 101**	$ 94
Other long term employee benefits cost (income) recognized in operating income	**3**	(4)	**8**	6
Post-employment and other long term employee benefit costs included in net interest expense and other financing charges (note 3)	**2**	4	**7**	10
Actuarial losses before tax recognized in other comprehensive loss	**133**	92	**218**	201

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 included costs for the Company's long term disability plan. The actuarial losses recognized in other comprehensive loss in 2011 were primarily due to decreases in the discount rate and a lower than expected return on assets. The actuarial losses recognized in other comprehensive loss in 2010 were primarily due to decreases in the discount rate.

Note 12. Share-Based Compensation

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

For the periods ended October 8, 2011 and October 9, 2010 (millions of Canadian dollars)	**2011 (16 weeks)**	2010 (16 weeks)	**2011 (40 weeks)**	2010 (40 weeks)
Stock option plan expense	**$ 5**	$ 6	**$ 8**	$ 26
Equity forwards (income) expense	**2**	(2)	**4**	(12)
RSU plan expense	**8**	5	**11**	11
Net share-based compensation expense	**$ 15**	$ 9	**$ 23**	$ 25

The following is the carrying amount of the Company's share-based compensation arrangements:

(millions of Canadian dollars)	**As at October 8, 2011**	As at October 9, 2010	As at January 1, 2011
Trade payables and other liabilities	**$ 17**	$ 38	$ 39
Other liabilities	**13**	31	35
Contributed surplus	**45**	1	1
	$ 75	$ 70	$ 75

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 as well as other liabilities was reclassified to contributed surplus.

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

Number of Options	**October 8, 2011 (16 weeks)**	October 9, 2010 (16 weeks)	**October 8, 2011 (40 weeks)**	October 9, 2010 (40 weeks)
Outstanding options, beginning of period	**11,395,732**	9,585,006	**9,320,865**	9,207,816
Granted	**179,509**	21,782	**3,320,756**	2,510,877
Exercised	**(25,619)**	(138,836)	**(631,886)**	(563,811)
Forfeited	**(282,420)**	(119,314)	**(742,533)**	(1,108,072)
Expired	**–**	–	**–**	(698,172)
Outstanding options, end of period	**11,267,202**	9,348,638	**11,267,202**	9,348,638
Share appreciation value paid (millions of Canadian dollars)	**$ –**	$ 2	**$ –**	$ 5

During the third quarter of 2011, the Company granted 179,509 (2010 – 21,782) stock options at a weighted average exercise price of $37.63 (2010 – $43.42). The fair value as calculated under the Black-Scholes stock option valuation model was $1 million (2010 – nominal). In addition, in the third quarter of 2011, the Company issued 25,619 and 631,886 year-to-date common shares on the exercise of stock options and received nominal cash consideration in the quarter and $19 million year-to-date.

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

	October 8, 2011
Expected dividend yield	**2.3%**
Expected share price volatility	**22.1% – 24.4%**
Risk-free interest rate	**1.7% – 2.4%**
Expected life of options	**4.4 – 6.4 years**

For the options outstanding at the periods ended as indicated, the assumptions used to measure the fair value of options under the Black-Scholes model were as follows:

	October 9, 2010	January 1, 2011
Expected dividend yield	2.1%	2.1%
Expected share price volatility	17.1% – 27.3%	16.0% – 27.0%
Risk-free interest rate	1.0% – 2.0%	0.7% – 2.6%
Expected life of options	0.3 – 6.2 years	0.2 – 6.4 years
Weighted average exercise price	$38.50	$38.56

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% (October 9, 2010 – 14.6%; January 1, 2011 – 16.2%).

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

	As at October 8, 2011	As at October 9, 2010	As at January 1, 2011
Outstanding contracts (in millions)	**1.5**	1.5	1.5
Average forward price per share ($)	**$ 56.22**	$ 56.27	$ 56.26
Interest expense per share ($)	**$ –**	$ 0.05	$ 0.04
Interest and unrealized market loss recorded in trade payables and other liabilities (millions of Canadian dollars)	**$ 29**	$ 23	$ 24

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

Number of Awards	**October 8, 2011 (16 weeks)**	October 9, 2010 (16 weeks)	**October 8, 2011 (40 weeks)**	October 9, 2010 (40 weeks)
RSUs, beginning of period	**1,044,727**	1,081,909	**1,045,346**	973,351
Granted	**188,628**	2,590	**540,999**	375,315
Settled	**(24,065)**	(12,073)	**(345,850)**	(183,837)
Forfeited	**(22,816)**	(12,513)	**(54,021)**	(104,916)
RSUs, end of period	**1,186,474**	1,059,913	**1,186,474**	1,059,913
RSUs, settled (millions of Canadian dollars)	**$ 1**	$ 1	**$ 13**	$ 7

As at October 8, 2011, the intrinsic value of vested RSUs was $21 million (October 9, 2010 – $23 million; January 1, 2011 – $26 million).

Note 13. 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. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims, 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 The Company is subject to tax audits from various government and regulatory agencies on an on-going basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or change legislation, which could lead to reassessments. These reassessments may have a material impact on the Company in future periods.

Note 14. 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 brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services.

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)	**October 8, 2011 (16 weeks)**	October 9, 2010 (16 weeks)	**October 8, 2011 (40 weeks)**	October 9, 2010 (40 weeks)
Revenue				
Retail	**$ 9,563**	$ 9,377	**$ 23,477**	$ 23,314
Financial services[(1)]	**164**	158	**400**	403
Consolidated	**$ 9,727**	$ 9,535	**$ 23,877**	$ 23,717

(1) Included in financial services revenue is $77 (October 9, 2010 - $77) during the third quarter of 2011 and $193 (2010 - $202) year-to-date of interest income.

(millions of Canadian dollars)	**October 8, 2011 (16 weeks)**	October 9, 2010 (16 weeks)	**October 8, 2011 (40 weeks)**	October 9, 2010 (40 weeks)
Depreciation and Amortization				
Retail	**$ 215**	$ 191	**$ 523**	$ 474
Financial services	**3**	1	**6**	2
Consolidated	**$ 218**	$ 192	**$ 529**	$ 476

(millions of Canadian dollars)	**October 8, 2011 (16 weeks)**	October 9, 2010 (16 weeks)	**October 8, 2011 (40 weeks)**	October 9, 2010 (40 weeks)
Operating Income				
Retail	**$ 397**	$ 358	**$ 1,015**	$ 936
Financial services	**24**	31	**54**	87
Consolidated	**$ 421**	$ 389	**$ 1,069**	$ 1,023

(millions of Canadian dollars)	October 8, 2011 (16 weeks)	October 9, 2010 (16 weeks)	October 8, 2011 (40 weeks)	October 9, 2010 (40 weeks)
Net Interest Expense and Other Financing Charges				
Retail	**$ 81**	$ 89	**$ 209**	$ 238
Financial services	**14**	13	**37**	32
Consolidated	**$ 95**	$ 102	**$ 246**	$ 270

(millions of Canadian dollars)	As at October 8, 2011	As at October 9, 2010	As at January 1, 2011
Total Assets			
Retail	**$ 14,636**	$ 14,341	$ 14,569
Financial services	**2,273**	2,095	2,272
Consolidated	**$ 16,909**	$ 16,436	$ 16,841

(millions of Canadian dollars)	October 8, 2011 (16 weeks)	October 9, 2010 (16 weeks)	October 8, 2011 (40 weeks)	October 9, 2010 (40 weeks)
Additions to Fixed Assets and Goodwill				
Retail	**$ 324**	$ 432	**$ 638**	$ 750
Financial services	**–**	1	**2**	3
Consolidated	**$ 324**	$ 433	**$ 640**	$ 753

Note 15. 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. For the overall impact of IFRS on the opening balance sheet as at January 3, 2010, including a discussion of the optional exemptions taken and the applicable mandatory exceptions, refer to note 16 in the first quarter report to shareholders for the 12 weeks ending March 26, 2011.

The significant accounting policies described in note 2 and in the Company's first quarter 2011 consolidated financial statements have been applied in preparing the unaudited interim period condensed consolidated financial statements for the period ended October 8, 2011, and the comparative information for the periods ended October 9, 2010 and January 1, 2011.

An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position and financial performance 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 51. 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 October 9, 2010	As at January 1, 2011
Total Equity - CGAAP		$ 6,745	$ 6,880
Differences increasing (decreasing) reported shareholders' equity			
Minority interest presentation	a	34	41
Share-based payments	b	(1)	(2)
Fixed assets	c	(63)	(71)
Leases	d	(31)	(31)
Employee benefits	e	(431)	(370)
Borrowing costs	f	(212)	(216)
Consolidations	g	(86)	(68)
Impairment of assets	h	(180)	(146)
Provisions	i	(15)	(15)
Financial instruments	j	(346)	(374)
Customer loyalty programs	k	(19)	(25)
Total Equity – IFRS		$ 5,395	$ 5,603

Reconciliation of Net Earnings

		For the periods ended		
(millions of Canadian dollars)	Explanatory Notes	October 9, 2010 (16 weeks)	October 9, 2010 (40 weeks)	January 1, 2011 (52 weeks)
Net Earnings - CGAAP		$ 213	$ 530	$ 681
Differences increasing (decreasing) reported net earnings				
Minority interest presentation	a	10	14	18
Share-based payments	b	1	4	3
Fixed assets	c	(3)	(5)	(13)
Leases	d	(1)	(4)	(4)
Employee benefits	e	12	23	25
Borrowing costs	f	(5)	(13)	(17)
Consolidations	g	(12)	(18)	3
Impairment of assets	h	2	7	41
Provisions	i	2	3	3
Financial instruments	j	(23)	(26)	(54)
Customer loyalty programs	k	1	(5)	(11)
Net Earnings - IFRS		$ 197	$ 510	$ 675

Reconciliation of Comprehensive Income

(millions of Canadian dollars)	Explanatory Notes	For the periods ended October 9, 2010 (16 weeks)	October 9, 2010 (40 weeks)	January 1, 2011 (52 weeks)
Comprehensive Income - CGAAP		$ 210	$ 522	$ 674
Differences increasing (decreasing) reported comprehensive income				
Differences in net earnings		(16)	(20)	(6)
Available-for-sale financial assets		4	1	(1)
Unrealized cash flow hedges	j	(1)	10	12
Actuarial gains (losses) on pension plans, net of tax	e	(68)	(149)	(90)
Comprehensive Income – IFRS		$ 129	$ 364	$ 589

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 $69 million and $74 million, net of impairment, as at October 9, 2010 and January 1, 2011, 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 $48 million and $39 million were reclassified to non-current deferred tax assets as at October 9, 2010 and January 1, 2011, 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 $62 million and $62 million and long-term provisions of $22 million and $22 million as at October 9, 2010 and January 1, 2011, 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 October 9, 2010 and January 1, 2011 and net earnings in the period ended October 9, 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)	16 weeks Ended October 9, 2010	40 weeks Ended October 9, 2010	52 Weeks Ended January 1, 2011
Operating income	$ 2	$ 6	$ 6
Income taxes	1	2	3
Net earnings	1	4	3

Consolidated Balance Sheets

Increase (Decrease)	As at	
(millions of Canadian dollars)	October 9, 2010	January 1, 2011
Deferred income tax assets	$ 1	$ –
Trade payables and other liabilities	24	25
Other liabilities	(22)	(23)
Retained earnings	(2)	(3)
Contributed surplus	1	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)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1, 2011
Operating income	$ (5)	$ (7)	$ (18)
Income taxes	(2)	(2)	(5)
Net earnings	(3)	(5)	(13)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at October 9, 2010	 January 1, 2011
Fixed assets	$ (74)	$ (85)
Deferred income tax assets	10	12
Deferred income tax liabilities	(1)	(2)
Retained earnings	(63)	(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.

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

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1, 2011
Operating income	$ 3	$ 5	$ 9
Net interest expense and other financing charges	5	11	14
Income taxes	(1)	(2)	(1)
Net earnings	(1)	(4)	(4)

Consolidated Balance Sheets

Increase (Decrease)	As at	
(millions of Canadian dollars)	October 9, 2010	January 1, 2011
Fixed assets	$ 136	$ 139
Deferred income tax assets	5	4
Trade payables and other liabilities	(1)	(1)
Long term debt due within one year	8	8
Long term debt	173	175
Deferred income tax liabilities	(6)	(6)
Other liabilities	(2)	(2)
Retained earnings	(31)	(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 OCI 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.

(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)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1 , 2011
Operating income	$ 22	$ 43	$ 47
Net interest expense and other financing charges	4	10	13
Income taxes	6	10	9
Net earnings	12	23	25

Consolidated Statements of Comprehensive Income

Increase (Decrease) (millions of Canadian dollars)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1 , 2011
Other comprehensive income, net of income taxes	$ (68)	$ (149)	$ (90)

Consolidated Balance Sheets

Increase (Decrease)	As at	
(millions of Canadian dollars)	October 9, 2010	January 1, 2011
Deferred income tax assets	$ 131	$ 113
Other assets	(344)	(350)
Deferred income tax liabilities	(18)	(17)
Other liabilities	236	150
Retained earnings	(431)	(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.

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)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1 , 2011
Operating income	$ –	$ 1	$ 1
Net Interest expense and other financing charges	6	16	21
Income taxes	(1)	(2)	(3)
Net earnings	(5)	(13)	(17)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at October 9, 2010	As at January 1, 2011
Fixed assets	$ (254)	$ (259)
Deferred income tax assets	21	22
Deferred income tax liabilities	(21)	(21)
Retained earnings	(212)	(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 Credit Card Trust*, the independent securitization 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 impact arising from the change described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1 , 2011
Operating income	$ (2)	$ 13	$ 45
Net Interest expense and other financing charges	13	35	47
Income taxes	(3)	(4)	(5)
Net earnings	(12)	(18)	3

Consolidated Balance Sheets

Increase (Decrease)	As at	
(millions of Canadian dollars)	October 9, 2010	January 1, 2011
Cash and cash equivalents	$ (76)	$ (75)
Short term investments	13	19
Accounts receivable	118	118
Credit card receivables	500	1,100
Inventories	(154)	(158)
Income taxes recoverable	–	6
Prepaid expenses and other assets	(3)	2
Fixed assets	(197)	(196)
Goodwill and intangible assets	(3)	(3)
Deferred income tax assets	40	39
Franchise loans receivable	392	399
Other assets	94	94
Bank indebtedness	(1)	7
Trade payables and other liabilities	107	114
Income taxes payable	2	–
Provisions	2	1
Long term debt due within one year	458	461
Long term debt	230	810
Other liabilities	4	3
Deferred income tax liabilities	8	17
Minority interests	(34)	(41)
Retained earnings	(52)	(27)

h. IAS 36, "Impairment of Assets"

IFRS requires that assets be tested for impairment at the level of a cash generating unit ("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. 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 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.

As at the transition date, the Company reviewed its tangible and intangible assets 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 October 9, 2010 and for the year ended January 1, 2011.

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

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1, 2011
Operating income	$ 3	$ 9	$ 54
Income taxes	1	2	13
Net earnings	2	7	41

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at October 9, 2010	 January 1, 2011
Assets held for sale	$ –	$ (2)
Fixed assets	(231)	(184)
Investment properties	(15)	(15)
Deferred income tax assets	37	31
Deferred income tax liabilities	(29)	(24)
Retained earnings	(180)	(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 October 9, 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)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1, 2011
Operating income	$ 2	$ 4	$ 5
Income taxes	–	1	2
Net earnings	2	3	3

Consolidated Balance Sheets

Increase (Decrease)	As at	
(millions of Canadian dollars)	October 9, 2010	January 1, 2011
Fixed assets	$ 1	$ 1
Deferred income tax assets	2	2
Provisions	21	20
Deferred income tax liabilities	(3)	(2)
Retained earnings	(15)	(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 October 9, 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 securitization 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)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1, 2011
Operating income	$ (28)	$ (25)	$ (56)
Net Interest expense and other financing charges	(4)	(12)	(15)
Income taxes	(1)	13	13
Net earnings	(23)	(26)	(54)

Consolidated Statements of Comprehensive Income

Increase (Decrease) (millions of Canadian dollars)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1, 2011
Other comprehensive income, net of income taxes	$ 3	$ 11	$ 11

Consolidated Balance Sheets

Increase (Decrease)	As at	
(millions of Canadian dollars)	October 9, 2010	January 1, 2011
Accounts receivable	$ (93)	$ (96)
Credit card receivables	1,115	517
Prepaid expenses and other assets	–	1
Deferred income tax assets	44	43
Franchise loans receivable	(62)	(85)
Other assets	(159)	(154)
Trade payables and other liabilities	(20)	(5)
Income taxes payable	1	–
Short term debt	1,135	535
Other liabilities	75	70
Retained earnings[(1)]	(341)	(369)
Accumulated other comprehensive income[(1)]	(5)	(5)

(1) Total equity impact is ($374 million) at January 1, 2011 and ($346 million) at October 9, 2010.

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)	16 Weeks Ended October 9, 2010	40 Weeks Ended October 9, 2010	52 Weeks Ended January 1, 2011
Revenue	$ (37)	$ (100)	$ (126)
Selling, general and administrative expenses	(39)	(94)	(111)
Operating income	2	(6)	(15)
Income taxes	1	(1)	(4)
Net earnings	1	(5)	(11)

Consolidated Balance Sheets

Increase (Decrease)	As at	
(millions of Canadian dollars)	October 9, 2010	January 1, 2011
Accounts receivable	$ (1)	$ –
Deferred income tax assets	7	10
Trade payables and other liabilities	25	35
Retained earnings	(19)	(25)

Consolidated Statements of Earnings

(millions of Canadian dollars) For the sixteen weeks ended October 9, 2010

Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
Revenue	$ 9,593	$ –	$ (58)	$ 9,535
Cost of Merchandise Inventories Sold	7,276	–	42	7,318
Operating Expenses				
Selling, general and administrative expenses	1,726	201	(99)	1,828
Depreciation and amortization	201	(201)	–	–
	1,927	–	(99)	1,828
Operating Income	390	–	(1)	389
Interest expense and other financing charges	78	–	24	102
Earnings Before Income Taxes and Minority Interest	312	–	(25)	287
Income Taxes	89	–	1	90
Net Earnings Before Minority Interest	223	–	(26)	197
Minority Interest	10	(10)	–	–
Net Earnings	$ 213	$ 10	$ (26)	$ 197
Net Earnings Attributable to:				
Shareholders of the Company		$ –	$ (16)	$ 197
Non-controlling interests		$ 10	$ (10)	$ –
Net Earnings Per Common Share ($) (note 5)				
Basic	$ 0.77	$ –	$ (0.06)	$ 0.71
Diluted	$ 0.76	$ –	$ (0.06)	$ 0.70

(millions of Canadian dollars) For the forty weeks ended October 9, 2010

Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
Revenue	$ 23,836	$ –	$ (119)	$ 23,717
Cost of Merchandise Inventories Sold	18,006	–	108	18,114
Operating Expenses				
Selling, general and administrative expenses	4,348	502	(270)	4,580
Depreciation and amortization	502	(502)	–	–
	4,850	–	(270)	4,580
Operating Income	980	–	43	1,023
Interest expense and other financing charges	210	–	60	270
Earnings Before Income Taxes and Minority Interest	770	–	(17)	753
Income Taxes	226	–	17	243
Net Earnings Before Minority Interest	544	–	(34)	510
Minority Interest	14	(14)	–	–
Net Earnings	$ 530	$ 14	$ (34)	$ 510
Net Earnings Attributable to:				
Shareholders of the Company		$ –	$ (20)	$ 510
Non-controlling interests		$ 14	$ (14)	$ –
Net Earnings Per Common Share ($) (note 5)				
Basic	$ 1.91	$ –	$ (0.07)	$ 1.84
Diluted	$ 1.90	$ –	$ (0.11)	$ 1.79

Consolidated Statements of Comprehensive Income

(millions of Canadian dollars)				For the sixteen weeks ended October 9, 2010
Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
Net earnings	$ 213	$ 10	$ (26)	$ 197
Other comprehensive income				
Net unrealized (loss) gain on available-for-sale financial assets	(5)	–	5	–
Reclassification of loss (gain) on available for-sale financial assets to net earnings	1	–	(1)	–
	(4)	–	4	–
Net gain on derivative instruments designated as cash flow hedges	1	–	(2)	(1)
Reclassification of loss (gain) on derivative instruments designated as cash flow hedges to net earnings	–	–	1	1
	1	–	(1)	–
Actuarial gains/losses on defined benefit plans	–	–	(68)	(68)
Other comprehensive loss	(3)	–	(65)	(68)
Total Comprehensive Income (Loss)	$ 210	$ 10	$ (91)	$ 129
Total Comprehensive Income Attributable to:				
Shareholders of the Company		$ –	$ (81)	$ 129
Non-controlling interests		$ 10	$ (10)	$ –

(millions of Canadian dollars)				For the forty weeks ended October 9, 2010
Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
Net earnings	$ 530	$ 14	$ (34)	$ 510
Other comprehensive income				
Net unrealized (loss) gain on available-for-sale financial assets	(10)	–	10	–
Reclassification of loss (gain) on available for-sale financial assets to net earnings	9	–	(9)	–
	(1)	–	1	–
Net (loss) gain on derivative instruments designated as cash flow hedges	(1)	–	(1)	(2)
Reclassification of loss (gain) on derivative instruments designated as cash flow hedges to net earnings	(6)	–	11	5
	(7)	–	10	3
Actuarial gains/losses on defined benefit plans	–	–	(149)	(149)
Other comprehensive loss	(8)	–	(138)	(146)
Total Comprehensive Income (Loss)	$ 522	$ 14	$ (172)	$ 364
Total Comprehensive Income Attributable to:				
Shareholders of the Company		$ –	$ (158)	$ 364
Non-controlling interests		$ 14	$ (14)	$ –

Reconciliation of Consolidated Balance Sheets

(millions of Canadian dollars) As at October 9, 2010

Accounts	CGAAP Balance	IFRS Reclassification	IFRS Adjustments	IFRS Balance
Assets				
Current Assets				
Cash and cash equivalents	$ 808	$ –	$ (76)	$ 732
Short term investments	800	–	13	813
Accounts receivable	593	(240)	24	377
Credit card receivables	–	240	1,615	1,855
Inventories	2,167	–	(154)	2,013
Future income taxes	48	(48)	–	–
Prepaid expenses and other assets	107	–	(3)	104
Assets held for sale	–	81	–	81
Total Current Assets	4,523	33	1,419	5,975
Fixed Assets	8,853	(165)	(619)	8,069
Investment Properties	–	84	(15)	69
Goodwill and Intangible Assets	1,032	–	(3)	1,029
Deferred Income Taxes	–	(15)	298	283
Security Deposits	–	350	–	350
Franchise Loans Receivable	–	–	330	330
Other Assets	1,090	(350)	(409)	331
Total Assets	$ 15,498	$ (63)	$ 1,001	$ 16,436
Liabilities				
Current Liabilities				
Bank indebtedness	$ 1	$ –	$ (1)	$ –
Short term debt	–	–	1,135	1,135
Trade payables and other liabilities	3,171	(62)	135	3,244
Income taxes payable	36	–	3	39
Provisions	–	62	2	64
Long term debt due within one year	410	–	466	876
Total Current Liabilities	3,618	–	1,740	5,358
Provisions	–	22	21	43
Long Term Debt	4,180	–	403	4,583
Deferred Income Taxes	161	(63)	(70)	28
Capital Securities	220	–	–	220
Other Liabilities	540	(22)	291	809
Minority Interest	34	(34)	–	–
Total Liabilities	8,753	(97)	2,385	11,041
Shareholders' Equity				
Common Share Capital	1,433	–	–	1,433
Retained Earnings	5,303	–	(1,346)	3,957
Contributed Surplus	–	–	1	1
Accumulated Other Comprehensive Income	9	–	(5)	4
Non-controlling Interest	–	34	(34)	–
Total Shareholders' Equity	6,745	34	(1,384)	5,395
Total Liabilities and Shareholders' Equity	$ 15,498	$ (63)	$ 1,001	$ 16,436

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

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 October 8, 2011 in connection with the Company's Short Form Base Shelf Prospectus dated November 25, 2010.

Earnings Coverage on financial liabilities	3.94 times

The earnings coverage ratio on financial liabilities is equal to net earnings before interest on short-term debt, interest on long term debt, dividends on capital securities and income taxes divided by interest on short-term debt, 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.

Ce rapport est disponible en français.