Loblaw

COMPANIES LIMITED

Q1

FIRST QUARTER REPORT TO SHAREHOLDERS

12 WEEKS ENDING MARCH 22, 2014

2014 First Quarter Report to Shareholders

2014 First Quarter Summary[1]

- Revenue of $7,292 million, an increase of 1.2% over the first quarter of 2013.
- Adjusted EBITDA[2] up 5.0% to $463 million compared to $441 million in the first quarter of 2013.
- Adjusted basic net earnings per common share[2] up 2.1% to $0.49 compared to $0.48 in the first quarter of 2013.
- Basic net earnings per common share[3] down 39.3% to $0.37 compared to $0.61 in the first quarter of 2013, with 2013 positively impacted by a gain related to defined benefit plan amendments.
- Retail sales growth of 0.8% and same-store sales[3] growth of 0.9% compared to the first quarter of 2013. Retail same-store sales[3] growth was negatively impacted by approximately 0.2% due to the shift in the timing of Easter. Normalized for the shift, same-store sales[3] growth for the quarter was approximately 1.1%.
- Financial Services revenue increased by 9.1% over the first quarter of 2013.
- Quarterly common share dividend increase of approximately 2.1%, from $0.24 per common share to $0.245 per common share.
- On March 28, 2014, subsequent to the end of the first quarter of 2014, the Company announced that it completed the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), following approval of the transaction by the Competition Bureau.

"The first quarter of 2014 marked another quarter of steady progress in our core business," said Galen G. Weston, Executive Chairman, Loblaw Companies Limited. "We remained focused on balancing our commitment to competitiveness and financial performance, achieving positive same-store sales and growing adjusted operating income. While the industry backdrop continues to be challenging with the intensely competitive market environment and the continued impact of drug reform, we still expect to advance our combined business both financially and operationally this year."

"With the acquisition of Shoppers Drug Mart completed, we are able to move into the next chapter for Loblaw, as we continue to build a portfolio of strong, complementary and independent businesses," continued Mr. Weston. "The near-term financial benefits, as well as the long-term strategic rationale of this transaction are extremely compelling."

(1) This report contains forward-looking information. See Forward-Looking Statements on page 9 of this report for a discussion of material factors that could cause actual results to differ materially from forecasts and projections herein and of the material factors and assumptions that were used when making these statements. 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 27 of this report.

(3) For financial definitions and ratios refer to the Glossary of Terms on page 109 of the 2013 Annual Report.

Consolidated Quarterly Results of Operations

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[1] (12 weeks)	$ Change	% Change
Revenue	$ 7,292	$ 7,202	$ 90	1.2 %
Operating income	253	309	(56)	(18.1)%
Adjusted operating income[2]	268	258	10	3.9 %
Adjusted operating margin[2]	3.7%	3.6%		
Adjusted EBITDA[2]	$ 463	$ 441	$ 22	5.0 %
Adjusted EBITDA margin[2]	6.3%	6.1%		
Net interest expense and other financing charges	$ 115	$ 76	$ 39	51.3 %
Net earnings	103	171	(68)	(39.8)%
Adjusted net earnings[2]	139	134	5	3.7 %
Basic net earnings per common share ($)	0.37	0.61	(0.24)	(39.3)%
Adjusted basic net earnings per common share[2] ($)	0.49	0.48	0.01	2.1 %

- The $90 million increase in revenue compared to the first quarter of 2013 was primarily driven by an increase in the Company's Retail segment. Revenue also increased in the Company's Financial Services segment.
- Operating income decreased by $56 million compared to the first quarter of 2013. The change in operating income was negatively impacted by the gain related to defined benefit plan amendments recorded in the first quarter of 2013, costs related to the acquisition of Shoppers Drug Mart, general and administrative costs related to Choice Properties Real Estate Investment Trust ("Choice Properties") and unfavourable year-over-year changes in fixed asset and other related impairments. Adjusted operating income[2] increased $10 million compared to the first quarter of 2013, primarily driven by an increase in adjusted operating income[2] in the Company's Financial Services segment.
- Adjusted operating margin[2] was 3.7% for the first quarter of 2014 compared to 3.6% in the same quarter in 2013. Adjusted EBITDA margin[2] was 6.3% for the first quarter of 2014 compared to 6.1% in the same quarter in 2013.
- Net interest expense and other financing charges increased by $39 million compared to the first quarter of 2013 and included net interest of $15 million related to indebtedness incurred to finance the acquisition of Shoppers Drug Mart, and an unfavourable $12 million fair value adjustment related to the Trust Unit Liability for the change in the fair value of Choice Properties' Trust Units ("Units") held by unitholders other than the Company. Excluding these impacts, net interest expense and other financing charges increased by $12 million, driven primarily by distributions paid by Choice Properties on its Units and by higher interest on long term debt.
- Income tax expense for the first quarter of 2014 was $35 million (2013 – $62 million) and the effective income tax rate was 25.4% (2013 – 26.6%). The decrease in the effective tax rate over the first quarter of 2013 was primarily due to an increase in income tax recoveries related to prior year tax matters, partially offset by an increase in non-deductible amounts, including fair value adjustments on the Trust Unit Liability. After excluding the tax impact of items excluded from adjusted net earnings[2], the effective income tax rate on adjusted net earnings[2] was 22.8% (2013 – 26.4%).
- Net earnings decreased by $68 million compared to the first quarter of 2013, primarily driven by the decrease in operating income and the increase in net interest expense and other financing charges described above, partially offset by a lower income tax expense. Adjusted net earnings[2] increased by $5 million compared to the first quarter of 2013, primarily driven by higher adjusted operating income[2] and a lower effective income tax rate on adjusted net earnings[2], partially offset by higher net interest and other financing charges after excluding certain items described above.
- Basic net earnings per common share were $0.37 in the first quarter of 2014 compared to $0.61 in the first quarter of 2013. Adjusted basic net earnings per common share[2] were $0.49 in the first quarter of 2014 compared to $0.48 in the first quarter of 2013.
- In the first quarter of 2014, the Company invested $116 million (2013 – $119 million) in capital expenditures.

(1) Certain 2013 non-GAAP financial measures have been restated to conform with the current year's presentation. See Non-GAAP Financial Measures on page 27 of this report.

(2) See Non-GAAP Financial Measures on page 27 of this report.

Retail Segment

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[1] (12 weeks)	$ Change	% Change
Sales	$ 7,095	$ 7,037	$ 58	0.8 %
Gross profit	1,580	1,576	4	0.3 %
Operating income	217	279	(62)	(22.2)%
Adjusted operating income[2]	226	228	(2)	(0.9)%
Adjusted EBITDA[2]	416	408	8	2.0 %

For the periods ended March 22, 2014 and March 23, 2013 (unaudited)	2014 (12 weeks)	2013[1] (12 weeks)
Same-store sales[3] growth	0.9%	2.8%
Gross profit percentage	22.3%	22.4%
Adjusted operating margin[2]	3.2%	3.2%
Adjusted EBITDA margin[2]	5.9%	5.8%

- In the first quarter of 2014, the increase in Retail sales of $58 million, or 0.8%, over the same period in the prior year was a result of the following factors:
  - Same-store sales[3] growth was 0.9% (2013 – 2.8%) and was negatively impacted by approximately 0.2% due to the shift in the timing of Easter. Normalized for the shift, same-store sales[3] growth for the quarter was approximately 1.1%. Same-store sales[3] growth excluding gas bar for the quarter was 0.8% (2013 – 2.8%) and normalized for the effect of the shift in the timing of Easter, was approximately 1.0%;
  - Sales growth in food was moderate;
  - Sales in drugstore declined marginally;
  - Sales growth in gas bar was moderate;
  - Sales in general merchandise, excluding apparel, were flat;
  - Sales in apparel were flat;
  - The Company's average quarterly internal food price index was slightly higher (2013 – lower) than the average quarterly national food price inflation of 1.2% (2013 – 1.4%) 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; and
  - 23 corporate and franchise stores were opened and 12 corporate and franchise stores were closed in the last 12 months, resulting in a net increase of 0.4 million square feet, or 0.8%.
- In the first quarter of 2014, gross profit percentage was 22.3%, down 10 basis points compared to the first quarter of 2013. The decline was primarily driven by higher shrink due to the investment in fresh assortment and increased transportation costs, which were mainly the result of higher fuel prices. Gross profit dollars increased by $4 million, or 0.3%, compared to the same period in 2013, driven by higher sales partially offset by the decline in gross profit percentage.
- Operating income decreased by $62 million compared to the first quarter of 2013, and was negatively impacted by the gain related to defined benefit plan amendments recorded in the first quarter of 2013, costs related to the acquisition of Shoppers Drug Mart and unfavourable year-over-year changes in fixed asset and other related impairments. Adjusted operating income[2] decreased by $2 million compared to the first quarter of 2013, primarily driven by increased other operating costs, including depreciation and amortization, higher foreign exchange losses and costs related to certain of the Company's emerging businesses, partially offset by supply chain and labour efficiencies, and higher gross profit. For the first quarter of 2014, adjusted operating margin[2] was 3.2%, flat compared to the same period in 2013.

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- Adjusted EBITDA[(1)] increased by $8 million compared to the first quarter of 2013. For the first quarter of 2014 adjusted EBITDA margin[(1)] was 5.9% compared to 5.8% in the same period in 2013. Retail segment depreciation and amortization increased by $10 million compared to the first quarter of 2013.

Financial Services Segment

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013 (12 weeks)	$ Change	% Change
Revenue	$ 180	$ 165	$ 15	9.1%
Operating income	36	30	6	20.0%
Earnings before income taxes	23	19	4	21.1%

(millions of Canadian dollars except where otherwise indicated) (unaudited)	As at March 22, 2014	As at March 23, 2013	$ Change	% Change
Average quarterly net credit card receivables	$ 2,469	$ 2,240	$ 229	10.2%
Credit card receivables	2,399	2,175	224	10.3%
Allowance for credit card receivables	47	43	4	9.3%
Annualized yield on average quarterly gross credit card receivables[(2)]	14.2%	13.5%		
Annualized credit loss rate on average quarterly gross credit card receivables[(2)]	4.5%	4.2%		

- Revenue for the first quarter of 2014 increased by 9.1% compared to the first quarter of 2013. This increase was primarily driven by higher interest income from higher credit card receivable balances and an increased interest income yield, and higher other service fee related income.
- Operating income and earnings before income taxes increased by $6 million and $4 million, respectively, compared to the first quarter of 2013. These increases were mainly attributable to higher revenue as described above, partially offset by higher operating costs as a result of an increase in the active customer base, and higher credit losses.
- As at March 22, 2014, credit card receivables were $2,399 million, an increase of $224 million compared to March 23, 2013. This increase was primarily driven by growth in the active customer base as a result of continued investments in customer acquisitions and marketing initiatives over the past two years. As at March 22, 2014, the allowance for credit card receivables was $47 million, an increase of $4 million compared to March 23, 2013, primarily due to the growth in the credit card portfolio.

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Choice Properties Segment

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars)	2014[1] (12 weeks)	2013 (12 weeks)
Revenue	$ 167	$ —
Operating income	118	—
Adjusted operating income[2]	124	—
Net interest expense and other financing charges	126	—

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014[1] (12 weeks)	2013 (12 weeks)
Net operating income[2]	$ 115	$ —
Funds from operations[2]	87	—
Adjusted funds from operations[2]	69	—
Adjusted funds from operations per unit diluted[2] ($)	0.19	—
Adjusted funds from operations payout ratio[2]	87.8%	—%

- Revenue for the first quarter of 2014 was $167 million, of which $150 million was received from the Retail segment. Revenue consists of base rent, operating cost and property tax recoveries.
- Operating income for the first quarter of 2014 was $118 million and included $5 million of general and administrative costs. Adjusted operating income[2] was $124 million.
- Net operating income[2] for the first quarter of 2014 was $115 million, which consisted of cash rental revenue less property operating costs.
- Funds from operations[2] and adjusted funds from operations[2] for the first quarter of 2014 were $87 million and $69 million respectively.
- Results of Choice Properties operations for the first quarter of 2014 were slightly better than the financial forecast included in Choice Properties' equity and debt prospectuses dated June 26, 2013, primarily driven by incremental income from properties acquired since that date.
- In the first quarter of 2014, Choice Properties completed the issuance of $450 million aggregate principal amount of senior unsecured debentures. The majority of the proceeds were used to repay $440 million of transferor notes held by Loblaw.
- Also in the first quarter of 2014, Choice Properties acquired an industrial property in Mississauga, Ontario, for approximately $16 million. The acquisition was funded entirely with cash. This property is fully leased to a related party.

(1) Results are for the period ended March 31, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to March 22, 2014 are included in Consolidation and Eliminations.

(2) See Non-GAAP Financial Measures on page 27 of this report.

Acquisition of Shoppers Drug Mart Corporation

On March 28, 2014, subsequent to the end of the first quarter, the Company acquired all of the outstanding shares of Shoppers Drug Mart for total consideration of $12.3 billion, comprised of approximately $6.6 billion of cash and the issuance of approximately 119.5 million common shares of the Company.

The cash portion of the acquisition was financed as follows:

- $3.5 billion was obtained through an unsecured term loan facility bearing interest at a rate equal to the Bankers' Acceptance rate plus 1.75% and maturing March 28, 2019;
- $1.6 billion of proceeds from the issuance of unsecured notes in the third quarter of 2013 were released from escrow;
- $500 million was received in consideration of the issuance of 10.5 million common shares to George Weston Limited; and
- approximately $1.0 billion was used from cash on hand.

Loblaw expects to achieve annualized synergies of $300 million in the third full year following the close of the transaction (net of related costs), phased in evenly over three years. First year synergies are expected to be generated primarily from improved cost of goods sold and from purchasing efficiencies in goods not for resale.

Pursuant to a Consent Agreement reached with the Competition Bureau in the first quarter of 2014, the Company is required to divest of 14 Shoppers Drug Mart stores and four of the Company's franchise grocery stores, as well as nine pharmacy operations of the Company. The divestitures are not expected to have a material impact on the operations of the Company or the planned synergies.

Based on a preliminary assessment, the Company expects to recognize the following amounts of net tangible assets, goodwill and intangible assets in the second quarter of 2014:

(millions of Canadian dollars except where otherwise indicated) (unaudited)			Estimated Useful Life
Fair Value of Net Tangible Assets Acquired	$	552	
Goodwill		2,251	
Prescription files		5,040	11 years
Brands		3,340	indefinite
Optimum loyalty program		490	18 years
Other		600	5 to 10 years
Total Intangible Assets		9,470	
Total Net Assets Acquired	$	12,273	

The Company anticipates annual amortization of approximately $550 million relating to the intangible assets identified above. In addition, other purchase-related fair value adjustments will be recognized, including a fair value adjustment to inventory of approximately $800 million, representing the difference between inventory cost and its fair value. This difference will be recognized in cost of sales as the inventory is sold over the remainder of 2014, with a resulting negative impact on gross profit. The Company will exclude these impacts in calculating adjusted operating income(1), as management does not consider them to be reflective of the Company's underlying operating performance.

In the first quarter of 2014, the Company incurred costs related to the acquisition of $23 million, of which $8 million was recorded in selling, general and administrative expenses and $15 million was recorded in net interest expense and other financing charges.

Upon closing of the acquisition, all amounts owing on Shoppers Drug Mart's revolving bank credit facility were repaid and the facility was cancelled. In addition, upon closing, the Company guaranteed the outstanding principal amount of Shoppers Drug Mart medium term notes of $500 million, along with any accrued interest. The Company has also provided guarantees to various Canadian banks in support of the financing obtained by Shoppers Drug Mart associates.

Declaration of Dividends

Subsequent to the end of the first quarter of 2014, the Board of Directors declared a quarterly dividend on Loblaw Companies Limited common shares of $0.245 payable July 1, 2014 to shareholders of record on June 15, 2014 and a dividend on the Second Preferred Shares, Series A of $0.37 per share payable July 31, 2014 to shareholders of record on July 15, 2014.

(1) See Non-GAAP Financial Measures on page 27 of this report.

Outlook[1]

The Company expects to update this outlook in the second quarter earnings announcement, which will reflect the impacts of:

- Accounting policies alignment and the purchase price allocation with respect to the acquisition of Shoppers Drug Mart, and
- Synergies expected to be achieved in 2014. The Company's overall synergy targets remain unchanged.

The Company expects the competitive environment and industry square footage to remain at historically high levels in the second quarter, and also expects deflationary pressure from regulatory drug reform – the impacts of which are expected to moderate in the second half of the year. During the second quarter, the Company also anticipates to be negatively impacted by the timing of charges related to the transition of certain stores to more cost effective and efficient operating terms under collective agreements. These charges are anticipated to be approximately $25 million. Expectations for the full year with respect to these charges are approximately $35 million. In 2013, the charges were $8 million and $24 million, for the second quarter and full year, respectively.

(1) See Forward-Looking Statements on page 9 of this report.

Management’s Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the Company's first quarter 2014 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 December 28, 2013 and the related annual MD&A included in the Company's 2013 Annual Report – Financial Review ("2013 Annual Report").

The Company's first quarter 2014 unaudited interim period condensed consolidated financial statements and accompanying notes have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). 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 109 of the Company's 2013 Annual Report. In addition, this Quarterly Report includes the following terms: "adjusted debt(1) to rolling year adjusted EBITDA(1)", which is defined as adjusted debt(1) divided by cumulative adjusted 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); and "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.

The information in this MD&A is current to April 29, 2014, unless otherwise noted.

Forward-Looking Statements

This Quarterly Report for the Company contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Specific forward-looking statements in this Quarterly Report include, but are not limited to, statements with respect to the Company's anticipated future results and events, targeted synergies expected following the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), future liquidity, planned capital expenditures, amount of pension plan contributions, status and impact of information technology ("IT") systems implementation and future plans. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in the Outlook section on page 26 of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2014 is based on certain assumptions including assumptions about revenue growth, anticipated cost savings and operating efficiencies, and competitive square footage growth. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the Enterprise Risks and Risk Management section on page 24 of this MD&A and the Enterprise Risks and Risk Management section on page 28 of the Company's 2013 Annual Report. Such risks and uncertainties include:

- failure by the Company to realize the anticipated strategic benefits or operational, competitive and cost synergies expected following the acquisition of Shoppers Drug Mart;
- failure to realize benefits from investments in the Company's IT systems, including the Company's IT systems implementation, or unanticipated results from these initiatives;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including those from restructuring;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- public health events including those related to food safety;

(1) See Non-GAAP Financial Measures on page 27 of this report.

- heightened competition, whether from current competitors or new entrants to the marketplace;
- changes in economic conditions, including the rate of inflation or deflation, changes in interest and currency exchange rates and derivative and commodity prices;
- changes in the Company's income, capital, commodity, property and other tax and regulatory liabilities including changes in tax laws, regulations or future assessments;
- changes to the regulation of generic prescription drug prices and the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink; and
- changes in the Company's estimate of inventory cost as a result of its IT system upgrade.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. Information on risks and uncertainties related to Shoppers Drug Mart are disclosed in the Information Statement filed by the Company on August 20, 2013, and the Shoppers Drug Mart 2013 annual MD&A filed by Shoppers Drug Mart on February 20, 2014. 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 MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Key Financial Performance Indicators

The Company has identified specific key financial performance indicators to measure the progress of short and long term objectives. Certain key financial performance indicators are set out below:

As at or for the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[1] (12 weeks)
Consolidated:		
Revenue growth	1.2%	3.8%
Operating income	$ 253	$ 309
Adjusted operating income[2]	268	258
Adjusted operating margin[2]	3.7%	3.6%
Adjusted EBITDA[2]	463	441
Adjusted EBITDA margin[2]	6.3%	6.1%
Net earnings	103	171
Adjusted net earnings[2]	139	134
Basic net earnings per common share ($)	0.37	0.61
Adjusted basic net earnings per common share[2] ($)	0.49	0.48
Cash and cash equivalents, short term investments and security deposits	4,273	1,750
Cash flows from operating activities	(46)	(29)
Adjusted debt[2] to rolling year adjusted EBITDA[2]	3.0x	2.1x
Free cash flow[2]	(420)	(342)
Interest coverage	2.2x	4.1x
Rolling year return on average net assets[2]	9.9%	10.3%
Rolling year return on average shareholders' equity	8.3%	10.8%
Retail Segment:		
Same-store sales growth	0.9%	2.8%
Gross profit	$ 1,580	$ 1,576
Gross profit percentage	22.3%	22.4%
Adjusted operating margin[2]	3.2%	3.2%
Adjusted EBITDA margin[2]	5.9%	5.8%
Financial Services Segment:		
Earnings before income taxes	$ 23	$ 19
Annualized yield on average quarterly gross credit card receivables	14.2%	13.5%
Annualized credit loss rate on average quarterly gross credit card receivables	4.5%	4.2%
Choice Properties Segment[3]:		
Net operating income[2]	$ 115	$ —
Funds from operations[2]	87	—
Adjusted funds from operations[2]	69	—
Adjusted funds from operations per unit diluted[2] ($)	0.19	—
Adjusted funds from operations payout ratio[2]	87.8%	—%

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(3) Results are for the period ended March 31, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to March 22, 2014 are included in Consolidation and Eliminations.

Closing of the Acquisition of Shoppers Drug Mart Corporation

On March 28, 2014, subsequent to the end of the first quarter, the Company acquired all of the outstanding shares of Shoppers Drug Mart, for total consideration of $12.3 billion, comprised of approximately $6.6 billion of cash and the issuance of approximately 119.5 million common shares of the Company.

The acquisition brought together two iconic Canadian brands and harnesses the complementary strengths of the nation's number-one grocery retailer and number-one pharmacy and beauty retailer. It strengthens both companies' competitiveness in an evolving retail landscape, creating new growth opportunities for shareholders. It will give consumers more choice, value and convenience through Canada's largest retail network of unmatched store formats, including Shoppers Drug Mart's important and growing footprint in the small-urban store sector.

Loblaw expects to achieve annualized synergies of $300 million in the third full year following the close of the transaction (net of related costs), phased in evenly over three years. First year synergies are expected to be generated primarily from improved cost of goods sold and from purchasing efficiencies in goods not for resale.

Pursuant to a Consent Agreement reached with the Competition Bureau in the first quarter of 2014, the Company is required to divest of 14 Shoppers Drug Mart stores and four of the Company’s franchise grocery stores, as well as nine pharmacy operations of the Company. The divestitures are not expected to have a material impact on the operations of the Company or the planned synergies.

Consolidated Results of Operations

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Adjusted basic net earnings per common share[2] ($)	0.49	0.48	0.01	2.1 %

Revenue The $90 million increase in revenue compared to the first quarter of 2013 was primarily driven by an increase in the Company's Retail segment. Revenue also increased in the Company's Financial Services segment.

Operating Income Operating income decreased by $56 million compared to the first quarter of 2013. The change in operating income was negatively impacted by the gain related to defined benefit plan amendments recorded in the first quarter of 2013, costs related to the acquisition of Shoppers Drug Mart, general and administrative costs related to Choice Properties Real Estate Investment Trust ("Choice Properties") and unfavourable year-over-year changes in fixed asset and other related impairments. Adjusted operating income[2] increased $10 million compared to the first quarter of 2013, primarily driven by an increase in adjusted operating income[2] in the Company's Financial Services segment.

Adjusted operating margin[2] was 3.7% for the first quarter of 2014 compared to 3.6% in the same quarter in 2013. Adjusted EBITDA margin[2] was 6.3% for the first quarter of 2014 compared to 6.1% in the same quarter in 2013.

Net interest expense and other financing charges In the first quarter of 2014, net interest expense and other financing charges increased by $39 million compared to the first quarter of 2013 and included net interest of $15 million related to indebtedness incurred to finance the acquisition of Shoppers Drug Mart, and an unfavourable $12 million fair value adjustment related to the Trust Unit Liability for the change in the fair value of Choice Properties' Trust Units ("Units") held by unitholders other than the Company. Excluding these impacts, net interest expense and other financing charges increased by $12 million, driven primarily by distributions paid by Choice Properties on its Units and by higher interest on long term debt.

Income Taxes Income tax expense for the first quarter of 2014 was $35 million (2013 – $62 million) and the effective income tax rate was 25.4% (2013 – 26.6%). The decrease in the effective tax rate over the first quarter of 2013 was primarily due to an increase in income tax recoveries related to prior year tax matters, partially offset by an increase in non-deductible amounts, including fair value adjustments on the Trust Unit Liability. After excluding the tax impact of items excluded from adjusted net earnings[2], the effective income tax rate on adjusted net earnings[2] was 22.8% (2013 – 26.4%).

Net Earnings Net earnings decreased by $68 million compared to the first quarter of 2013, primarily driven by the decrease in operating income and the increase in net interest expense and other financing charges described above, partially offset by a lower income tax expense. Adjusted net earnings[2] increased by $5 million compared to the first quarter of 2013, primarily driven by higher adjusted operating income[2] and a lower effective income tax rate on adjusted net earnings[2], partially offset by higher net interest and other financing charges after excluding certain items described above.

Basic net earnings per common share for the first quarter of 2014 decreased by 39.3% to $0.37 from $0.61 in the first quarter of 2013. Adjusted basic net earnings per common share[2] for the first quarter of 2014 increased by 2.1% to $0.49 from $0.48 in the first quarter of 2013.

(1) Certain 2013 non-GAAP financial measures have been restated to conform with the current year's presentation. See Non-GAAP Financial Measures on page 27 of this report.

(2) See Non-GAAP Financial Measures on page 27 of this report.

Reportable Operating Segments

Retail Segment

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[1] (12 weeks)	$ Change	% Change
Sales	$ 7,095	$ 7,037	$ 58	0.8 %
Gross profit	1,580	1,576	4	0.3 %
Operating income	217	279	(62)	(22.2)%
Adjusted operating income[2]	226	228	(2)	(0.9)%
Adjusted EBITDA[2]	416	408	8	2.0 %

For the periods ended March 22, 2014 and March 23, 2013 (unaudited)	2014 (12 weeks)	2013[1] (12 weeks)
Same-store sales growth	0.9%	2.8%
Gross profit percentage	22.3%	22.4%
Adjusted operating margin[2]	3.2%	3.2%
Adjusted EBITDA margin[2]	5.9%	5.8%

Sales In the first quarter of 2014, the increase in Retail sales of $58 million, or 0.8%, over the same period in the prior year was a result of the following factors:

- Same-store sales growth was 0.9% (2013 – 2.8%) and was negatively impacted by approximately 0.2% due to the shift in the timing of Easter. Normalized for the shift, same-store sales growth for the quarter was approximately 1.1%. Same-store sales growth excluding gas bar for the quarter was 0.8% (2013 – 2.8%) and normalized for the effect of the shift in the timing of Easter, was approximately 1.0%.
- Sales growth in food was moderate;
- Sales in drugstore declined marginally;
- Sales growth in gas bar was moderate;
- Sales in general merchandise, excluding apparel, were flat;
- Sales in apparel were flat;
- The Company's average quarterly internal food price index was slightly higher (2013 – lower) than the average quarterly national food price inflation of 1.2% (2013 – 1.4%) 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; and
- 23 corporate and franchise stores were opened and 12 corporate and franchise stores were closed in the last 12 months, resulting in a net increase of 0.4 million square feet, or 0.8%.

Gross Profit In the first quarter of 2014, gross profit percentage was 22.3%, down 10 basis points compared to the first quarter of 2013. The decline was primarily driven by higher shrink due to the investment in fresh assortment and increased transportation costs, which were mainly the result of higher fuel prices. Gross profit dollars increased by $4 million, or 0.3%, compared to the same period in 2013, driven by higher sales partially offset by the decline in gross profit percentage.

Operating Income Operating income decreased by $62 million compared to the first quarter of 2013, and was negatively impacted by the gain related to defined benefit plan amendments recorded in the first quarter of 2013, costs related to the acquisition of Shoppers Drug Mart and unfavourable year-over-year changes in fixed asset and other related impairments. Adjusted operating income[2] decreased by $2 million compared to the first quarter of 2013, primarily driven by increased other operating costs, including depreciation and amortization, higher foreign exchange losses and costs related to certain of the Company's emerging businesses, partially offset by supply chain and labour efficiencies, and higher gross profit. For the first quarter of 2014, adjusted operating margin[2] was 3.2%, flat compared to the same period in 2013.

(1) Certain 2013 non-GAAP financial measures have been restated to conform with the current year's presentation. See Non-GAAP Financial Measures on page 27 of this report.

(2) See Non-GAAP Financial Measures on page 27 of this report.

Adjusted EBITDA[(1)] increased by $8 million compared to the first quarter of 2013. For the first quarter of 2014, adjusted EBITDA margin[(1)] was 5.9% compared to 5.8% in the same period in 2013. Retail segment depreciation and amortization increased by $10 million compared to the first quarter of 2013.

Financial Services Segment

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013 (12 weeks)	$ Change	% Change
Revenue	$ 180	$ 165	$ 15	9.1%
Operating income	36	30	6	20.0%
Earnings before income taxes	23	19	4	21.1%

(millions of Canadian dollars except where otherwise indicated) (unaudited)	As at March 22, 2014	As at March 23, 2013	$ Change	% Change
Average quarterly net credit card receivables	$ 2,469	$ 2,240	$ 229	10.2%
Credit card receivables	2,399	2,175	224	10.3%
Allowance for credit card receivables	47	43	4	9.3%
Annualized yield on average quarterly gross credit card receivables	14.2%	13.5%		
Annualized credit loss rate on average quarterly gross credit card receivables	4.5%	4.2%		

Revenue Revenue for the first quarter of 2014 increased by 9.1% compared to the first quarter of 2013. The increase was primarily driven by higher interest income from higher credit card receivable balances and an increased interest income yield, and higher other service fee related income.

Operating Income and Earnings Before Income Taxes Operating income and earnings before income taxes increased by $6 million and $4 million, respectively, compared to the first quarter of 2013. These increases were mainly attributable to higher revenue as described above, partially offset by higher operating costs as a result of an increase in the active customer base, and higher credit losses.

Credit Card Receivables As at March 22, 2014, credit card receivables were $2,399 million, an increase of $224 million compared to March 23, 2013. This increase was primarily driven by growth in the active customer base as a result of continued investments in customer acquisitions and marketing initiatives over the past two years. As at March 22, 2014, the allowance for credit card receivables was $47 million, an increase of $4 million compared to March 23, 2013, primarily due to the growth in the credit card portfolio.

(1) See Non-GAAP Financial Measures on page 27 of this report.

Choice Properties Segment

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars)	2014[1] (12 weeks)	2013 (12 weeks)
Revenue	$ 167	$ —
Operating income	118	—
Adjusted operating income[2]	124	—
Net interest expense and other financing charges	126	—

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014[1] (12 weeks)	2013 (12 weeks)
Net operating income[2]	$ 115	$ —
Funds from operations[2]	87	—
Adjusted funds from operations[2]	69	—
Adjusted funds from operations per unit diluted[2] ($)	0.19	—
Adjusted funds from operations payout ratio[2]	87.8%	—%

Revenue Revenue for the first quarter of 2014 was $167 million, of which $150 million was received from the Retail segment. Revenue consists of base rent, operating cost and property tax recoveries.

Operating Income Operating income for the first quarter of 2014 was $118 million and included $5 million of general and administrative costs. Adjusted operating income[2] was $124 million.

Net Operating Income[2] Net operating income[2] for the first quarter of 2014 was $115 million, which consisted of cash rental revenue less property operating costs.

Funds from Operations[2] and Adjusted Funds from Operations[2] Funds from operations[2] and adjusted funds from operations[2] for the first quarter of 2014 were $87 million and $69 million respectively.

Results of Choice Properties operations for the first quarter of 2014 were slightly better than the financial forecast included in Choice Properties' equity and debt prospectuses dated June 26, 2013, primarily driven by incremental income from properties acquired since that date.

In the first quarter of 2014, Choice Properties completed the issuance of $450 million aggregate principal amount of senior unsecured debentures. The majority of the proceeds were used to repay $440 million of transferor notes held by Loblaw.

Also in the first quarter of 2014, Choice Properties acquired an industrial property in Mississauga, Ontario, for approximately $16 million. The acquisition was funded entirely with cash. This property is fully leased to a related party.

(1) Results are for the period ended March 31, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to March 22, 2014 are included in Consolidation and Eliminations.

(2) See Non-GAAP Financial Measures on page 27 of this report.

Acquisition of Shoppers Drug Mart Corporation

On March 28, 2014, subsequent to the end of the first quarter, the Company acquired all of the outstanding shares of Shoppers Drug Mart for total consideration of $12.3 billion, comprised of approximately $6.6 billion of cash and the issuance of approximately 119.5 million common shares of the Company.

The cash portion of the acquisition was financed as follows:

- $3.5 billion was obtained through an unsecured term loan facility bearing interest at a rate equal to the Bankers' Acceptance rate plus 1.75% and maturing March 28, 2019;
- $1.6 billion of proceeds from the issuance of unsecured notes in the third quarter of 2013 were released from escrow;
- $500 million was received in consideration of the issuance of 10.5 million common shares to George Weston Limited; and
- approximately $1.0 billion was used from cash on hand.

Based on a preliminary assessment, the Company expects to recognize the following amounts of net tangible assets, goodwill and intangible assets in the second quarter of 2014:

(millions of Canadian dollars except where otherwise indicated) (unaudited)			Estimated Useful Life
Fair Value of Net Tangible Assets Acquired	$	552	
Goodwill		2,251	
Prescription files		5,040	11 years
Brands		3,340	indefinite
Optimum loyalty program		490	18 years
Other		600	5 to 10 years
Total Intangible Assets		9,470	
Total Net Assets Acquired	$	12,273	

The Company anticipates annual amortization of approximately $550 million relating to the intangible assets identified above. In addition, other purchase-related fair value adjustments will be recognized, including a fair value adjustment to inventory of approximately $800 million, representing the difference between inventory cost and its fair value. This difference will be recognized in cost of sales as the inventory is sold over the remainder of 2014, with a resulting negative impact on gross profit. The Company will exclude these impacts in calculating adjusted operating income[(1)], as management does not consider them to be reflective of the Company's underlying operating performance.

In the first quarter of 2014, the Company incurred costs related to the acquisition of $23 million, of which $8 million was recorded in selling, general and administrative expenses and $15 million was recorded in net interest expense and other financing charges.

Upon closing of the acquisition, all amounts owing on Shoppers Drug Mart's revolving bank credit facility were repaid and the facility was cancelled. In addition, upon closing, the Company guaranteed the outstanding principal amount of Shoppers Drug Mart medium term notes ("MTNs") of $500 million, along with any accrued interest. The Company has also provided guarantees to various Canadian banks in support of the financing obtained by Shoppers Drug Mart associates.

(1) See Non-GAAP Financial Measures on page 27 of this report.

Other Business Matters

Information Technology and Other Systems Implementations In 2013, the Company established a stable foundation for the roll-out of the new IT systems, and during 2014 stores are being brought online at an accelerated pace. In the first quarter of 2014, the system was implemented in seven distribution centres and 72 stores, with little or no impact on customers. By the end of the first quarter, the system had been implemented in a total of 15 distribution centres and 147 stores, including 16 *Joe Fresh* stores. The Company continues to expect the system to be implemented in all of its distribution centres and in all of the Company's corporate retail stores by the end of 2014.

Inventory Valuation The Company values merchandise inventories at the lower of cost and net realizable value and uses the retail method to measure the cost of the majority of its retail store inventories. With the upgrade of its IT infrastructure, the Company expects to complete the conversion of its corporate retail stores to a perpetual inventory management system in 2014. The implementation of a perpetual inventory system, combined with visibility to integrated costing information provided by the new IT systems will enable the Company to estimate the cost of inventory using a system-generated weighted average cost. Any changes as a result of this implementation could be material and could negatively affect the carrying amount of the Company's inventory.

Liquidity and Capital Resources

Cash Flows

Major Cash Flow Components

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013 (12 weeks)	$ Change	% Change
Cash flows from (used in):				
Operating activities	$ (46)	$ (29)	$ (17)	(58.6)%
Investing activities	154	(189)	343	181.5 %
Financing activities	166	(177)	343	193.8 %

Cash Flows used in Operating Activities Cash flows used in operating activities were $46 million in the first quarter of 2014, an increase in operating cash flows used of $17 million compared to the first quarter of 2013. The increase was due to higher investments in working capital, partially offset by the settlement of equity forward contracts in the first quarter of 2013.

Working capital investments were primarily driven by decreases in accounts payable and accrued liability balances, consistent with normal seasonal trends.

Cash Flows from (used in) Investing Activities Cash flows from investing activities were $154 million in the first quarter of 2014, compared to cash flows used in investing activities of $189 million in the first quarter of 2013. The increase in cash flows from investing activities was primarily due to a reduction in short term investments in the first quarter of 2014, compared to an increase in short term investments in the first quarter of 2013. The reduction in short term investments during the first quarter of 2014 reflected a conversion into cash as part of the Company's preparation to fund the cash portion of the Shoppers Drug Mart acquisition cost.

Capital Investment and Store Activity

As at or for the periods ended March 22, 2014 and March 23, 2013 (unaudited)	2014 (12 weeks)	2013 (12 weeks)	% Change
Capital investment (millions of Canadian dollars)	$ 116	$ 119	(2.5)%
Corporate square footage (in millions)	36.9	37.3	(1.1)%
Franchise square footage (in millions)	15.0	14.2	5.6 %
Retail square footage (in millions)	51.9	51.5	0.8 %
Number of corporate stores	558	573	(2.6)%
Number of franchise stores	508	482	5.4 %
Percentage of corporate real estate owned	73%	72%	
Percentage of franchise real estate owned	45%	45%	
Average store size (square feet)			
Corporate	66,100	65,100	1.5 %
Franchise	29,500	29,500	— %

Cash Flows from (used in) Financing Activities During the first quarter of 2014, cash flows from financing activities were $166 million compared to $177 million used in the first quarter of 2013. The increase in cash flows from financing activities was primarily due to higher net issuances of long term debt in the first quarter of 2014 and the purchase of common shares under the Company's Normal Course Issuer Bid ("NCIB") in the first quarter of 2013, partially offset by higher interest paid in the first quarter of 2014.

In the first quarter 2014, net issuances of long term debt included:

- The issuance of $450 million aggregate principal amount of senior unsecured debentures by Choice Properties; and
- The repayment of the Company's $100 million, 6.0% MTN upon maturity.

Free Cash Flow[1]

For the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013 (12 weeks)	$ Change	% Change
Free cash flow[1]	$ (420)	$ (342)	$ (78)	(22.8)%

Free Cash Flow[1] For the first quarter of 2014, free cash flow[1] was negative $420 million compared to negative $342 million in the first quarter of 2013. The decrease in free cash flow[1] was primarily due to an increase in interest paid and an increase in cash flows used in operating activities, described above.

Defined Benefit Pension Plan Contributions In the first quarter of 2014, the Company contributed $9 million (2013 – $25 million) to its registered defined benefit pension plans. The Company expects to make total contributions for 2014 of approximately $50 million. The actual amount contributed may vary from the estimate based on changes in actuarial valuations, investment performance, changes in discount rates, regulatory requirements and other factors. The Company also expects to continue making contributions for the remainder of 2014 to its defined contribution plans and the multi-employer pension plans in which it participates, and to continue making benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefits plans.

Liquidity and Capital Structure

The Company holds significant cash and cash equivalents, short term investments and security deposits denominated in Canadian dollars. The funds are invested in highly liquid marketable short term investments consisting primarily of bankers' acceptances, government treasury bills, corporate commercial paper, bank term deposits and government agency securities. As at March 22, 2014, the Company held $4,273 million of cash and cash equivalents, short term investments and security deposits, an increase of $2,523 million from March 23, 2013. This increase was largely driven by the $1.6 billion aggregate principal amount of senior unsecured notes issued as part of the financing related to the acquisition of Shoppers Drug Mart; the $660 million and $600 million of proceeds from Choice Properties' Initial Public Offering ("IPO") and debt offering, respectively; and the $450 million of senior unsecured debentures issued by Choice Properties in the first quarter of 2014, net of the repayment of US dollar ("USD") $300 million of US private placement ("USPP") notes; a $200 million MTN that matured in 2013; and a $100 million MTN that matured in the first quarter of 2014.

Choice Properties In the first quarter of 2014, Choice Properties issued $250 million principal amount of Series C senior unsecured debentures with a 7-year term and a coupon rate of 3.498% per annum and $200 million principal amount of Series D senior unsecured debentures with a 10-year term and a coupon rate of 4.293% per annum, under its Short Form Base Shelf Prospectus. The majority of the proceeds were used to repay $440 million of transferor notes held by Loblaw.

Subsequent to the end of the quarter, Choice Properties Limited Partnership entered into a Master Trust Indenture agreement with Computershare Trust Company of Canada. First and second supplemental indentures were created in order to facilitate the replacement of certain tranches of transferor notes held by Loblaw, with the replacement notes containing the same principal amounts, interest rates and maturity dates. The remaining terms and conditions are substantially similar to the original notes. Loblaw subsequently sold the replacement notes to unrelated parties and received net proceeds of $509 million. Loblaw used these proceeds and existing cash to repay $600 million of the $3.5 billion term loan drawn to fund a portion of the cost to acquire Shoppers Drug Mart.

Committed Facilities The Company's $800 million committed credit facility ("Credit Facility") contains certain financial covenants with which the Company was in compliance throughout the quarter and as at the end of the first quarter of 2014. As at the end of the first quarters of 2014 and 2013 and as at December 28, 2013, there were no amounts drawn under the Credit Facility. Subsequent to the end of the first quarter, effective on the closing of the Shoppers Drug Mart acquisition, the Credit Facility was increased to $1.0 billion.

(1) See Non-GAAP Financial Measures on page 27.

Choice Properties' $500 million senior unsecured committed credit facility, provided by a syndicate of lenders also contains certain financial covenants with which Choice Properties was in compliance throughout the quarter and as at the end of the first quarter of 2014. As at the end of the first quarter of 2014 and as at December 28, 2013, there were no amounts drawn under this facility.

Liquidity The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its committed credit facilities will enable the Company to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan and financial obligations over the next 12 months. If required, the Company expects that it could obtain long term financing through MTN issuances. Subsequent to the end of the first quarter of 2014, the financing related to the acquisition of Shoppers Drug Mart was completed as planned. See the Acquisition of Shoppers Drug Mart Corporation section on page 17 of this report.

Choice Properties expects to obtain its long term financing primarily through the issuance of equity and unsecured debentures.

Adjusted Debt(1) to rolling year Adjusted EBITDA(1)

(unaudited)	As at March 22, 2014	As at March 23, 2013
Adjusted debt(1) to rolling year Adjusted EBITDA(1)	3.0x	2.1x

The Company monitors its Adjusted Debt(1) to rolling year Adjusted EBITDA(1) ratio as a measure to ensure it is operating under an efficient capital structure. The ratio increased from the first quarter of 2013, driven primarily by the issuance of long term debt related to the Shoppers Drug Mart transaction and the issuance of long term debt by Choice Properties. The ratio will increase further in the second quarter of 2014, reflecting the Company drawing upon its $3.5 billion term loan to partially fund the cash portion of the purchase price for Shoppers Drug Mart. The Company will continue to target leverage ratios consistent with those of investment grade ratings.

The following are excluded from Adjusted Debt(1):

Independent Securitization Trusts The Company, through 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. PC Bank sells and repurchases credit card receivables to Independent Securitization Trusts, including *Eagle Credit Card Trust*® and Other Independent Securitization Trusts, from time to time depending on PC Bank's financing requirements.

The Company has arranged letters of credit on behalf of PC Bank, representing 9% (March 23, 2013 and December 28, 2013 – 9%) of the outstanding securitized liability for the benefit of the Other Independent Securitization Trusts in the amount of $54 million (March 23, 2013 – $81 million; December 28, 2013 – $54 million). In the event of a major decline in the income flow from, or in the value of, the securitized credit card receivables, the Other Independent Securitization Trusts can draw upon these letters of credit to recover up to a maximum of the amount outstanding on the letters of credit. Under its securitization programs, PC Bank is required to maintain at all times a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability and was in compliance with this requirement throughout the quarter.

In the first quarter of 2014, PC Bank extended the maturity date for two of its Other Independent Securitization Trust agreements from the second quarter of 2015 to the second quarter of 2016, with all other terms and conditions remaining substantially the same.

Independent Funding Trusts As at March 22, 2014, the independent funding trusts had drawn $469 million (March 23, 2013 – $468 million; December 28, 2013 – $475 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. Subsequent to the end of the first quarter of 2014, the Company renewed this committed credit facility for a further three years, to May 6, 2017.

The Company has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% of the principal amount of loans outstanding. As at March 22, 2014 the Company had provided a letter of credit in the amount of $50 million (March 23, 2013 and December 28, 2013 – $48 million).

Trust Unit Liability As at March 22, 2014, the fair value of the Trust Unit Liability was $703 million (March 23, 2013 – nil; December 28, 2013 – $688 million). During the first quarter of 2014, the Company recorded a fair value loss of $12 million in net interest expense and other financing charges related to Choice Properties' Units. Units held by unitholders other than the Company are presented as a liability on the Company's consolidated balance sheet as the Units are redeemable for cash at the option of the holder, subject to certain restrictions. As at the end of the first quarter of 2014, the Company held an 82.1% ownership in Choice Properties.

(1) See Non-GAAP Financial Measures on page 27.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for the first quarters of 2014 and 2013:

(millions of Canadian dollars) (unaudited)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
Balance, beginning of period	$ 430	$ 303
GICs issued	20	—
GICs matured	(7)	(10)
Balance, end of period	$ 443	$ 293

As at March 22, 2014, $49 million in GICs were recorded as long term debt due within one year (March 23, 2013 – $34 million; December 28, 2013 – $52 million).

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

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

Subsequent to the end of the first quarter of 2014, after the Company guaranteed the outstanding MTNs of Shoppers Drug Mart (see the Acquisition of Shoppers Drug Mart Corporation section on page 17 of this report), Standard & Poor's changed their credit rating of Shoppers Drug Mart outstanding MTNs to BBB with "Stable" outlook and DBRS changed its rating to BBB with a "Stable trend".

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

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

Share Capital

(number of common shares) (unaudited)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
Issued and outstanding, beginning of period	282,311,573	281,680,157
Issued for settlement of stock options	304,208	313,353
Issued and outstanding, end of period	282,615,781	281,993,510
Shares held in trust, beginning of period	(1,067,323)	—
Purchased for future settlement of RSUs and PSUs	—	(1,103,500)
Released for settlement of RSUs and PSUs	236,059	—
Shares held in trust, end of period	(831,264)	(1,103,500)
Issued and outstanding net of shares held in trust, end of period	281,784,517	280,890,010
Weighted average outstanding, net of shares held in trust	281,466,596	280,787,779

Subsequent to the end of the first quarter of 2014, the Company issued common shares in connection with the acquisition of Shoppers Drug Mart. See the Acquisition of Shoppers Drug Mart Corporation section on page 17 of this report.

Dividends The following table summarizes the Company's cash dividends declared for the first quarter of 2014:

	March 22, 2014[i] (12 weeks)	March 23, 2013 (12 weeks)
Dividends declared per share ($):		
Common share	$ 0.24	$ 0.22
Second Preferred Share, Series A	$ 0.37	$ 0.37

(i) Dividends declared on common shares have a payment date of April 1, 2014. Dividends declared on Second Preferred Shares, Series A have a payment date of April 30, 2014.

Subsequent to the end of the first quarter of 2014, the Board of Directors declared a quarterly dividend of $0.245 per common share, an increase of approximately 2.1%, payable July 1, 2014, and declared a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable July 31, 2014. 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.

Normal Course Issuer Bid During the first quarter of 2014 the Company did not purchase any common shares for cancellation under its NCIB.

The Company holds shares in trust for settlement of the Company's Restricted Share Unit ("RSU") and Performance Share Unit ("PSU") obligations. In the first quarter of 2013, the Company purchased 1,103,500 shares under its NCIB for cash consideration of $46 million and placed these shares into the trusts for future settlement of the Company's RSU and PSU obligations.

Subsequent to the first quarter of 2014, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or enter into equity derivatives to purchase up to 20,636,596 of the Company's common shares, representing approximately 5% of the common shares outstanding after taking into account shares issued upon the acquisition of Shoppers Drug Mart. In accordance with the rules and by-laws of the TSX, the Company may purchase its shares from time to time at the then market price of such shares.

Financial Derivative Instruments

The following represents financial derivative instruments that were terminated in 2013:

Cross Currency Swaps As at the end of the first quarter of 2013, Glenhuron Bank Limited ("Glenhuron") held cross currency swaps to offset the effect of translation gains and losses relating to USD cash and cash equivalents, short term investments and security deposits. Glenhuron unwound these cross currency swaps during the fourth quarter of 2013.

As at the end of the first quarter of 2013, Loblaw held cross currency swaps to exchange $296 million Canadian dollars for USD $300 million, for settlement of Loblaw's USPP notes included in long term debt. During the second and third quarters of 2013, the Company settled its USD $300 million USPP cross currency swaps.

Interest Rate Swaps As at the end of the first quarter of 2013, the Company maintained a notional $150 million in interest rate swaps which paid a fixed-rate of interest of 8.38%. During the second and third quarters of 2013, the Company settled these interest rate swaps.

Equity Forward Contracts During the first quarter of 2013, Glenhuron paid $16 million to settle the remaining equity forwards representing 1,103,500 Loblaw common shares. Glenhuron recognized a nominal loss in operating income related to these forwards.

Quarterly Results of Operations

Under an accounting convention common in the food retail industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. 2013 and 2012 were 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. When a fiscal year such as 2014 contains 53 weeks, the fourth quarter is 13 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period condensed consolidated financial statements for each of the eight most recently completed quarters.

Summary of Consolidated Quarterly Results

	First Quarter		Fourth Quarter		Third Quarter		Second Quarter	
(millions of Canadian dollars except where otherwise indicated) (unaudited)	2014 (12 weeks)	2013 (12 weeks)	2013 (12 weeks)	2012[1] (12 weeks)	2013 (16 weeks)	2012[1] (16 weeks)	2013 (12 weeks)	2012[1] (12 weeks)
Revenue	$ 7,292	$ 7,202	$ 7,640	$ 7,465	$ 10,009	$ 9,827	$ 7,520	$ 7,375
Net earnings	$ 103	$ 171	$ 127	$ 139	$ 154	$ 217	$ 178	$ 156
Net earnings per common share								
Basic ($)	$ 0.37	$ 0.61	$ 0.45	$ 0.49	$ 0.55	$ 0.77	$ 0.63	$ 0.55
Diluted ($)	$ 0.36	$ 0.60	$ 0.45	$ 0.46	$ 0.54	$ 0.75	$ 0.63	$ 0.55
Average national food price inflation (as measured by CPI)	1.2%	1.4%	0.9%	1.5%	0.9%	1.8 %	1.5%	2.5%
Retail same-store sales growth (decline)	0.9%	2.8%	0.6%	0.0%	0.4%	(0.2)%	1.1%	0.2%

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits".

Over the past eight quarters, net retail square footage increased by 0.6 million square feet to 51.9 million square feet.

Fluctuations in quarterly net earnings reflect the underlying operations of the Company and are impacted by seasonality, which is greatest in the fourth quarter and least in the first quarter, and the timing of holidays and were impacted by the following significant items:

- Choice Properties start-up costs and IPO transaction costs incurred in 2013;
- Choice Properties general and administrative costs beginning in 2013;
- Costs related to the acquisition of Shoppers Drug Mart beginning in 2013;
- Gains related to defined benefit plan amendments recorded in 2013;
- Early debt settlement costs incurred in 2013;
- The fair value adjustment of the Trust Unit Liability beginning in 2013;
- Restructuring costs, including the costs associated with reducing head office and administrative positions; and
- Fixed asset and other related impairments, net of recoveries.

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 IFRS.

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 required to use judgment in evaluating controls and procedures.

Changes in Internal Control over Financial Reporting During the first quarter of 2014 the Company continued to successfully implement the new IT system at distribution centres and stores. These implementations resulted in a material change to the Company's internal controls over financial reporting due to the volume and value of transactions now being processed through the new IT system. The areas impacted are substantially the same as those impacted in the fourth quarter of 2012, and in the second quarter of 2013: Accounts Payable, Cash Management, Order Processing and Billing, Vendor Income, Costing, Inventory Management and Valuation, and Credit Management.

Except for the preceding changes, there were no other changes in the Company's internal controls over financial reporting during the first quarter of 2014 that have materially affected, or are reasonably 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 28 of the MD&A in the Company's 2013 Annual Report. Information on risks and uncertainties related to Shoppers Drug Mart are disclosed in the Information Statement filed by the Company on August 20, 2013, and the Shoppers Drug Mart 2013 Annual Report. The following is an update to those risks and risk management strategies:

Acquisition of Shoppers Drug Mart Corporation On March 28, 2014, subsequent to the end of the first quarter, the Company acquired all of the outstanding shares of Shoppers Drug Mart, for total consideration of $12.3 billion, comprised of approximately $6.6 billion of cash and the issuance of approximately 119.5 million common shares of the Company.

The successful implementation of the acquisition will require significant effort on the part of management of the Company. Failure to realize the anticipated strategic benefits or operational, competitive and cost synergies could adversely affect the reputation, operations and financial performance of the Company.

Legal Proceedings As part of its normal course of operations, the Company is involved in and potentially subject to a variety of legal claims and proceedings.

With the acquisition of Shoppers Drug Mart, the Company is the subject of a class action brought by two licensed Associate-owners. The claim seeks damages in the amount of $500 million based on alleged breaches of the Associate Agreement with Shoppers Drug Mart. At this stage of the proceedings, any potential liability and the quantum of any loss cannot be determined. Since litigation is inherently uncertain, the outcome of this class action, and all other litigation proceedings and claims remains uncertain. However, based on information currently available, these matters, individually and in the aggregate, are not expected to have a material impact on the Company. In the event that management's assessment of materiality of current claims and proceedings proves inaccurate or litigation that is material arises in the future, there may be a material adverse effect on the Company's operations, revenues and financial performance.

Systems Implementations The Company continued to undertake a major upgrade of its IT infrastructure in the first quarter of 2014 as described in the Other Business Matters section on page 18 of this MD&A. Completing the IT system deployment will require continued focus and investment. Failure to successfully migrate from legacy systems to the new IT system or a disruption in the Company's current IT systems during the implementation of the new IT system, could result in a lack of accurate data to enable management to effectively manage the day-to-day operations of the business or achieve its strategic plan, causing significant disruptions to the business and potential financial losses. Failure to implement appropriate processes to support the new IT system could result in inefficiencies and duplication in processes and could adversely affect the operations, revenues and financial performance of the Company.

Pharmacy Industry Regulation With the acquisition of Shoppers Drug Mart, the Company is reliant on prescription drug sales for an increased portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, or non-compliance with these laws and regulations, could have a material adverse impact on the Company's operations, revenues and financial performance.

Federal and provincial laws and regulations that establish the public drug plans typically regulate prescription drug coverage, patient eligibility, pharmacy reimbursement, drug product eligibility, drug pricing and may also regulate manufacturer allowance funding that may be provided to or received by pharmacy or pharmacy suppliers. With respect to pharmacy reimbursement, such laws and regulations typically regulate the allowable drug cost of a prescription drug product, the permitted mark-up on a prescription drug product and the professional or dispensing fees that may be charged on prescription drug sales to patients eligible under the public drug plan. With respect to drug product eligibility, such laws and regulations typically regulate the requirements for listing the manufacturer's products as a benefit or partial benefit under the applicable governmental drug plan, drug pricing and, in the case of generic prescription drug products, the requirements for designating the product as interchangeable with a branded prescription drug product. In addition, other federal, provincial, territorial and local laws and regulations govern the approval, packaging, labeling, sale, marketing, advertising, handling, storage, distribution, dispensing and disposal of prescription drugs.

Sales of prescription drugs, pharmacy reimbursement and drug prices may be affected by changes to the health care industry, including legislative or other changes that impact patient eligibility, drug product eligibility, the allowable cost of a prescription drug product, the mark-up permitted on a prescription drug product, the amount of professional or dispensing fees paid by third-party payers or the provision or receipt of manufacturer allowances by pharmacy and pharmacy suppliers.

The majority of prescription drug sales are reimbursed or paid by third-party payers, such as governments, insurers or corporate employers. These third-party payers have pursued and continue to pursue measures to manage the costs of their drug plans. Each provincial jurisdiction has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing, restricting or prohibiting the provision of manufacturer allowances and placing limitations on private label prescription drug products. Other measures that have been implemented by certain government payers include restricting the number of interchangeable prescription drug products which are eligible for reimbursement under provincial drug plans. Additionally, the Council of the Federation, an institution created by the provincial Premiers in 2003 to collaborate on intergovernmental relations, continue their work regarding cost reduction initiatives for pharmaceutical products and services.

Legislation in certain provincial jurisdictions, including Québec, establish listing requirements that ensure that the selling price for a prescription drug product will not be higher than any selling price granted by the manufacturer for the same prescription drug product under other provincial drug insurance programs. In some provinces, elements of the laws and regulations that impact pharmacy reimbursement and manufacturer allowances for sales to the public drug plans are extended by legislation to sales in the private sector. Also, private third-party payers (such as corporate employers and their insurers) are looking or may look to benefit from any measures implemented by government payers to reduce prescription drug costs for public plans by attempting to extend these measures to prescription drug plans they own or manage. Accordingly, changes to pharmacy reimbursement and manufacturer allowances for a public drug plan could also impact pharmacy reimbursement and manufacturer allowances for private sector sales. In addition, private third-party payers could reduce pharmacy reimbursement for prescription drugs provided to their members or could elect to reimburse members only for products included on closed formularies or available from preferred providers.

Ongoing changes impacting pharmacy reimbursement programs, prescription drug pricing and manufacturer allowance funding, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales. These changes may have a material adverse impact on the Company's operations, revenues and financial performance. In addition, the Company could incur significant costs in the course of complying with any changes in the regulatory regime affecting prescription drugs. Non-compliance with any such existing or proposed laws or regulations, particularly those that provide for the licensing and conduct of wholesalers, the licensing and conduct of pharmacists, the regulation and ownership of pharmacies, the advertising of pharmacies and prescription services, the provision of information concerning prescription drug products, the pricing of prescription drugs and restrictions on manufacturer allowance funding, could result in audits, civil or regulatory proceedings, fines, penalties, injunctions, recalls or seizures, any of which may impact the Company's operations, revenues, and financial performance.

Inventory Valuation The Company values merchandise inventories at the lower of cost and net realizable value and uses the retail method to measure the cost of the majority of its retail store inventories. With the upgrade of its IT infrastructure, the Company expects to complete the conversion of its corporate retail stores to a perpetual inventory management system in 2014. The implementation of a perpetual inventory system, combined with visibility to integrated costing information provided by the new IT systems will enable the Company to estimate the cost of inventory using a system-generated weighted average cost. Any changes as a result of this implementation could be material and could negatively affect the carrying amount of the Company's inventory, which in turn, could have an adverse impact on the Company's financial performance.

Associate-owned Store Network The success of the Company and the reputation of its brands will be impacted by the performance of its Shoppers Drug Mart Associate-owned drug stores. Accordingly, the Company relies on its Associates to successfully operate, manage and execute the retail programs and strategies of the Company at their respective pharmacy locations.

The Company supports the operations of its Associates in many ways, including the provision of training and continuing education programs, as well as assistance with various administrative tasks. In addition, each Associate agrees to comply with the policies, marketing plans and operating standards prescribed by the Company, as specified in the Associate agreements with individual Associates. As well, through head lease control, the Company maintains control of all locations in its Associate-owned store network.

Associates are independent businesses, and as a result, their operations may be negatively affected by factors beyond the Company's control, which in turn could negatively affect the Company's reputation, operations and financial performance.

Alternative Arrangements for Sourcing Generic Drug Products As the utilization rate of generic prescription drugs increases, the Company, with the acquisition of Shoppers Drug Mart, is pursuing alternative sourcing and procurement models for generic prescription drug products. As part of this alternative sourcing and procurement initiative, the Company has entered into contracts for the fabrication of private label generic prescription drug products. These alternative sourcing and procurement models contain certain additional risks beyond those associated with the Company's conventional procurement strategy. The most significant of these additional risks are product liability and intellectual property infringement. Product liability claims may arise in the event that the use of the Company's products cause, or are alleged to have caused, any injury to consumers. Intellectual property infringement claims may arise in the event that the Company's products infringe or violate, or are alleged to infringe or violate, the patents or other intellectual property rights of any third parties, including the brand manufacturer. Both product liability and intellectual property infringement claims could be costly to defend and could result in significant liabilities and monetary damages. The Company has sought and will seek to manage these risks through a combination of product selection, insurance and contractual indemnities in its agreements with its contract fabricators. Failure to successfully implement these alternative sourcing and procurement models could have a negative impact on the Company's reputation, operations and financial performance.

In addition, the market for generic prescription drug products and eligibility for reimbursement from governmental and other third-party payers will depend on the extent to which the products are designated as interchangeable with the branded products and are included as a benefit on the public drug plans in Canada. These interchangeability designations and benefit listings are highly regulated and will be dependent on the products and the procurement model meeting the regulatory requirements. A material reduction in the interchangeability designations and benefit listings could have a negative impact on the Company's operations and financial performance.

Accounting Standards Implemented in 2014

The Company implemented the amendments to IAS 32, "Financial Instruments: Presentation" and International Financial Reporting Interpretations Committee ("IFRIC") 21, "Levies" retrospectively in the first quarter of 2014.

The Company has assessed the impact of the above and concluded there were no significant impacts on the Company's unaudited interim period condensed consolidated financial statements.

Outlook[(1)]

The Company expects to update this outlook in the second quarter earnings announcement, which will reflect the impacts of:

- Accounting policies alignment and the purchase price allocation with respect to the acquisition of Shoppers Drug Mart, and
- Synergies expected to be achieved in 2014. The Company's overall synergy targets remain unchanged.

The Company expects the competitive environment and industry square footage to remain at historically high levels in the second quarter, and also expects deflationary pressure from regulatory drug reform – the impacts of which are expected to moderate in the second half of the year. During the second quarter, the Company also anticipates to be negatively impacted by the timing of charges related to the transition of certain stores to more cost effective and efficient operating terms under collective agreements. These charges are anticipated to be approximately $25 million. Expectations for the full year with respect to these charges are approximately $35 million. In 2013, the charges were $8 million and $24 million, for the second quarter and full year, respectively.

(1) See Forward-Looking Statements on page 9 of this report.

Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: adjusted operating income, adjusted operating margin, adjusted EBITDA, adjusted EBITDA margin, adjusted net earnings, adjusted basic net earnings per common share, free cash flow, net assets, rolling year return on average net assets, adjusted debt and adjusted debt to rolling year adjusted EBITDA and with respect to Choice Properties, net operating income, funds from operations, adjusted funds from operations, adjusted funds from operations per unit diluted and adjusted funds from operations payout ratio. 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.

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

Beginning in the first quarter of 2014, the Company no longer excludes the impact of share-based compensation when analyzing consolidated and segment underlying operating performance. As a result, prior year adjusted operating income and adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin, and adjusted net earnings and adjusted basic net earnings per common share were restated to conform with the current year's presentation.

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

Adjusted Operating Income, Adjusted Operating Margin, Adjusted EBITDA and Adjusted EBITDA Margin The following table reconciles adjusted operating income and adjusted earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("adjusted EBITDA") to operating income, which is reconciled to GAAP net earnings measures reported in the condensed consolidated statements of earnings for the 12 weeks ended March 22, 2014 and March 23, 2013. The Company believes that adjusted operating income is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of the business. The Company believes that adjusted EBITDA is also useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

Adjusted operating margin is calculated as adjusted operating income divided by revenue. Adjusted EBITDA margin is calculated as adjusted EBITDA divided by revenue.

	2014 (12 weeks)					2013 (12 weeks)				
(millions of Canadian dollars) (unaudited)	Retail	Financial Services	Choice Properties(1)	Consolidation and Eliminations	Consolidated	Retail	Financial Services	Choice Properties	Consolidation and Eliminations	Consolidated
Net earnings					$ 103					$ 171
Add impact of the following:										
Net interest expense and other financing charges					115					76
Income taxes					35					62
Operating income	$ 217	$ 36	$ 118	$ (118)	$ 253	$ 279	$ 30	$ —	$ —	$ 309
Add (deduct) impact of the following:										
Defined benefit plan amendments	—	—	—	—	—	(51)	—	—	—	(51)
Shoppers Drug Mart related costs	8	—	—	—	8	—	—	—	—	—
Choice Properties general and administrative costs	(1)	—	5	—	4	—	—	—	—	—
Fixed asset and other related impairments	2	—	1	—	3	—	—	—	—	—
Adjusted operating income	$ 226	$ 36	$ 124	$ (118)	$ 268	$ 228	$ 30	$ —	$ —	$ 258
Depreciation and amortization	190	2	—	3	195	180	3	—	—	183
Adjusted EBITDA	$ 416	$ 38	$ 124	$ (115)	$ 463	$ 408	$ 33	$ —	$ —	$ 441

(1) Results are for the period ended March 31, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to March 22, 2014 are included in Consolidation and Eliminations.

Defined benefit plan amendments During the first quarter of 2013, the Company announced amendments to certain of its defined benefit plans impacting certain employees retiring after January 1, 2015. As a result, the Company recorded a gain of $51 million in the first quarter of 2013.

Shoppers Drug Mart related costs In connection with the agreement to acquire all of the outstanding common shares of Shoppers Drug Mart, in the first quarter of 2014 the Company recorded $8 million of acquisition costs in operating income.

Choice Properties general and administrative costs During the first quarter of 2014, the Company recorded $4 million of incremental general and administrative costs incurred by Choice Properties in operating income.

Fixed asset and other related impairments At each balance sheet date, the Company assesses and, when required, records impairments and recoveries of previous impairments related to the carrying value of its fixed assets, investment properties and intangible assets. In the first quarter of 2014, the Company recorded a charge of $3 million (2013 – nil) related to fixed asset and other related impairments.

Adjusted Net Earnings and Adjusted Basic Net Earnings Per Common Share The Company believes adjusted net earnings and adjusted basic net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

The following table reconciles adjusted net earnings and adjusted basic net earnings per common share to GAAP net earnings and basic net earnings per common share reported for the 12 week periods ended March 22, 2014 and March 23, 2013:

(millions of Canadian dollars/Canadian dollars) (unaudited)	2014 (12 weeks)		2013 (12 weeks)	
Net earnings/basic net earnings per common share	$ 103	$ 0.37	$ 171	$ 0.61
Add (deduct) impact of the following:				
Defined benefit plan amendments	—	—	(37)	(0.13)
Shoppers Drug Mart related costs	19	0.06	—	—
Choice Properties general and administrative costs	3	0.01	—	—
Fixed asset and other related impairments	2	0.01	—	—
Fair value adjustment of Trust Unit Liability	12	0.04	—	—
Adjusted net earnings/adjusted basic net earnings per common share	$ 139	$ 0.49	$ 134	$ 0.48

Shoppers Drug Mart related costs In addition to the related costs recorded in operating income noted above, during the first quarter of 2014, $15 million of additional net interest expense on a pre-tax basis was incurred in connection with the financing related to the acquisition. These financing charges were recorded in net interest expense and other financing charges.

Fair value adjustment of Trust Unit Liability The Company is exposed to market price fluctuations as a result of the Choice Properties Units held by unitholders other than the Company. These Units are presented as a liability on the Company's condensed consolidated balance sheets as they are redeemable for cash at the option of the holder, subject to certain restrictions. This liability is recorded at fair value at each reporting period based on the market price of Units at the end of the period. In the first quarter of 2014, the Company recorded a loss of $12 million (2013 – nil) related to the fair value adjustment on the Trust Unit Liability.

Free Cash Flow The following table reconciles free cash flow used in assessing the Company's financial condition to GAAP measures for the 12 weeks ended March 22, 2014 and March 23, 2013. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional funding and investing activities.

(millions of Canadian dollars) (unaudited)	2014 (12 weeks)	2013 (12 weeks)
Cash flows used in operating activities	$ (46)	$ (29)
Less: Change in credit card receivables	139	130
Fixed asset purchases	116	119
Interest paid	119	64
Free cash flow	$ (420)	$ (342)

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 the rolling year return on average net assets ratio is useful in assessing the return on operating assets.

Net assets is calculated as total assets less cash and cash equivalents, short term investments, security deposits and trade payables and other liabilities. Rolling year return on average net assets is calculated as cumulative operating income for the latest four quarters divided by average net assets.

(millions of Canadian dollars) (unaudited)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Total assets	$ 20,616	$ 17,460	$ 20,759
Less: Cash and cash equivalents	2,537	689	2,260
Short term investments	39	854	290
Security deposits	1,697	207	1,701
Trade payables and other liabilities	3,297	3,211	3,797
Net assets	$ 13,046	$ 12,499	$ 12,711

Adjusted Debt The following table reconciles adjusted debt used in the adjusted debt to rolling year adjusted EBITDA ratio to GAAP measures reported as at the periods ended as indicated. The Company believes that adjusted debt is relevant in assessing the amount of financial leverage employed.

The Company calculates debt as the sum of short term debt, long term debt, trust unit liability, certain other liabilities and the fair value of related financial derivatives. The Company calculates adjusted debt as debt less Independent Securitization Trusts in short term and long term debt, independent funding trusts, trust unit liability and PC Bank's GICs. Adjusted debt to rolling year adjusted EBITDA is calculated as adjusted debt divided by cumulative adjusted EBITDA for the latest four quarters.

(millions of Canadian dollars) (unaudited)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Short term debt	$ 605	$ 905	$ 605
Long term debt due within one year	902	772	1,008
Long term debt	7,155	4,901	6,672
Trust unit liability	703	—	688
Certain other liabilities	39	39	39
Fair value of financial derivatives related to the above	—	(10)	—
Total debt	$ 9,404	$ 6,607	$ 9,012
Less:			
Independent Securitization Trusts in short term debt	605	905	605
Independent Securitization Trusts in long term debt	750	600	750
Independent Funding Trusts	469	468	475
Trust Unit Liability	703	—	688
Guaranteed Investment Certificates	443	293	430
Adjusted debt	$ 6,434	$ 4,341	$ 6,064

The Second Preferred Shares, Series A classified as capital securities are excluded from the calculations of total debt and adjusted debt.

Choice Properties Net Operating Income The following table reconciles Choice Properties net operating income to GAAP measures for the 12 week periods ended March 22, 2014 and March 23, 2013. The Company believes net operating income is useful in measuring Choice Properties operating performance and the performance of the real estate properties.

(millions of Canadian dollars) (unaudited)	2014[1] (12 weeks)	2013 (12 weeks)
Rental revenue	$ 167	$ —
Reverse - Straight-line rental revenue	(9)	—
	158	—
Property Operating Costs	(43)	—
Net Operating Income	$ 115	$ —

Choice Properties Funds from Operations, Adjusted Funds from Operations, Adjusted Funds from Operations per Unit Diluted and Adjusted Funds from Operations Payout Ratio The following table reconciles Choice Properties funds from operations and adjusted funds from operations to GAAP measures for the 12 week periods ended March 22, 2014 and March 23, 2013. The Company believes funds from operations is useful in measuring Choice Properties operating performance and the performance of the real estate properties, and that adjusted funds from operations is useful in measuring economic performance and is indicative of Choice Properties ability to pay distributions.

(millions of Canadian dollars) (unaudited)	2014[1] (12 weeks)	2013 (12 weeks)
Net income	$ (8)	$ —
Fair value adjustments on Class B Limited Partnership units	48	—
Distributions on Class B Limited Partnership units	46	—
Amortization of tenant improvement allowances	1	—
Funds from Operations	$ 87	$ —
Straight-line rental revenue	(9)	—
Amortization of finance charges	(1)	—
Sustaining property and leasing capital expenditures, normalized[2]	(8)	—
Adjusted Funds from Operations	$ 69	$ —

Adjusted funds from operations per unit diluted is calculated as adjusted funds from operations divided by Choice Properties' diluted weighted average units outstanding, which were 372.1 million in the first quarter of 2014.

Adjusted funds from operations payout ratio is calculated as Choice Properties' distribution per unit, which was $0.162501 in the first quarter of 2014, divided by adjusted funds from operations per unit diluted.

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 for the Company's subsidiary, PC Bank.

April 29, 2014
Toronto, Canada

(1) Results are for the period ended March 31, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to March 22, 2014 are included in Consolidation and Eliminations.

(2) Anticipated property and leasing capital expenditures for the first quarter of 2014 was $8 million, however only $2 million was spent as winter weather impacted the start date of new projects.

Financial Results

Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
Revenue	$ 7,292	$ 7,202
Cost of Merchandise Inventories Sold	5,528	5,474
Selling, General and Administrative Expenses	1,511	1,419
Operating Income	$ 253	$ 309
Net interest expense and other financing charges (note 4)	115	76
Earnings Before Income Taxes	$ 138	$ 233
Income taxes (note 5)	35	62
Net Earnings	$ 103	$ 171
Net Earnings per Common Share ($) (note 6)		
Basic	$ 0.37	$ 0.61
Diluted	$ 0.36	$ 0.60

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

Condensed Consolidated Statements of Comprehensive Income

(millions of Canadian dollars) (unaudited)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
Net earnings	$ 103	$ 171
Other comprehensive (loss) income, net of taxes		
Items that may be subsequently reclassified to profit or loss:		
Foreign currency translation adjustment	$ 4	$ —
Items that will not be reclassified to profit or loss:		
Net defined benefit plan actuarial (loss) gain (note 15)	(69)	34
Other comprehensive (loss) income	$ (65)	$ 34
Total Comprehensive Income	$ 38	$ 205

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

Condensed Consolidated Statements of Changes in Shareholders' Equity

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 28, 2013	$ 1,642	$ 5,289	$ 87	$ —	$ 7,018
Net earnings	$ —	$ 103	$ —	$ —	$ 103
Other comprehensive (loss) income	—	(69)	—	4	(65)
Total Comprehensive Income	$ —	$ 34	$ —	$ 4	$ 38
Net effect of equity-based compensation (note 14)	13	—	(7)	—	6
Release of shares held in trust (note 16)	1	9	—	—	10
Dividends declared per common share – $0.24 (note 14)	—	(68)	—	—	(68)
	$ 14	$ (25)	$ (7)	$ 4	$ (14)
Balance at March 22, 2014	$ 1,656	$ 5,264	$ 80	$ 4	$ 7,004

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 29, 2012	$ 1,567	$ 4,792	$ 55	$ 5	$ 6,419
Net earnings	$ —	$ 171	$ —	$ —	$ 171
Other comprehensive income	—	34	—	—	34
Total Comprehensive Income	$ —	$ 205	$ —	$ —	$ 205
Net effect of equity-based compensation (note 14)	13	—	13	—	26
Net effect of shares held in trust (note 14)	(6)	(40)	—	—	(46)
Dividends declared per common share – $0.22 (note 14)	—	(62)	—	—	(62)
	$ 7	$ 103	$ 13	$ —	$ 123
Balance at March 23, 2013	$ 1,574	$ 4,895	$ 68	$ 5	$ 6,542

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

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Assets			
Current Assets			
Cash and cash equivalents (note 7)	$ 2,537	$ 689	$ 2,260
Short term investments (note 7)	39	854	290
Accounts receivable	621	519	618
Credit card receivables (note 8)	2,399	2,175	2,538
Inventories (note 9)	2,084	1,951	2,084
Prepaid expenses and other assets	123	109	75
Assets held for sale	23	35	22
Total Current Assets	$ 7,826	$ 6,332	$ 7,887
Fixed Assets	9,034	8,919	9,105
Investment Properties	115	95	99
Goodwill and Intangible Assets	1,052	1,062	1,054
Deferred Income Taxes	292	249	253
Security Deposits (note 7)	1,697	207	1,701
Franchise Loans Receivable (note 17)	363	372	375
Other Assets (note 10)	237	224	285
Total Assets	$ 20,616	$ 17,460	$ 20,759
Liabilities			
Current Liabilities			
Trade payables and other liabilities	$ 3,297	$ 3,211	$ 3,797
Provisions	53	64	66
Income taxes payable	3	19	37
Short term debt (note 11)	605	905	605
Long term debt due within one year (note 12)	902	772	1,008
Total Current Liabilities	$ 4,860	$ 4,971	$ 5,513
Provisions	56	64	56
Long Term Debt (note 12)	7,155	4,901	6,672
Trust Unit Liability	703	—	688
Deferred Income Taxes	36	18	34
Capital Securities	224	223	224
Other Liabilities (note 13)	578	741	554
Total Liabilities	$ 13,612	$ 10,918	$ 13,741
Shareholders' Equity			
Common Shares (note 14)	$ 1,656	$ 1,574	$ 1,642
Retained Earnings	5,264	4,895	5,289
Contributed Surplus (note 16)	80	68	87
Accumulated Other Comprehensive Income	4	5	—
Total Shareholders' Equity	$ 7,004	$ 6,542	$ 7,018
Total Liabilities and Shareholders' Equity	$ 20,616	$ 17,460	$ 20,759

Contingent liabilities (note 18). Subsequent events (notes 3, 12 and 14).
See accompanying notes to the unaudited interim period condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars) (unaudited)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
Operating Activities		
Net earnings	$ 103	$ 171
Income taxes (note 5)	35	62
Net interest expense and other financing charges (note 4)	115	76
Depreciation and amortization	195	183
Income taxes paid	(81)	(64)
Interest received	8	10
Settlement of equity forward contracts (note 17)	—	(16)
Change in credit card receivables (note 8)	139	130
Change in non-cash working capital	(568)	(529)
Fixed asset and other related impairments	3	—
Gain on disposal of assets	—	(1)
Gain on defined benefit plan amendments (note 15)	—	(51)
Other	5	—
Cash Flows used in Operating Activities	(46)	(29)
Investing Activities		
Fixed asset purchases	(116)	(119)
Change in short term investments (note 7)	251	(118)
Proceeds from fixed asset sales	10	2
Change in franchise investments and other receivables	6	8
Change in security deposits (note 7)	4	47
Intangible asset additions	(1)	(9)
Cash Flows from (used in) Investing Activities	154	(189)
Financing Activities		
Long Term Debt (note 12)		
Issued	469	10
Retired	(126)	(26)
Interest paid	(119)	(64)
Dividends paid	(68)	(62)
Common Shares		
Issued (note 16)	10	11
Purchased and held in trust (note 14)	—	(46)
Cash Flows from (used in) Financing Activities	166	(177)
Effect of foreign currency exchange rate changes on cash and cash equivalents	3	5
Change in cash and cash equivalents	277	(390)
Cash and cash equivalents, beginning of period	2,260	1,079
Cash and Cash Equivalents, End of Period	$ 2,537	$ 689

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

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 retailer and a leading provider of drugstore, general merchandise and financial products and services, and is the majority unitholder of Choice Properties Real Estate Investment Trust ("Choice Properties"), an owner, manager and developer of commercial real estate across Canada. 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 consolidated financial statements as the "Company" or "Loblaw".

The Company's parent is George Weston Limited ("Weston"), which owns approximately 63% of the Company's outstanding common shares. Subsequent to the end of the first quarter, the Company completed the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") (see note 3). As a result of the acquisition, Weston's ownership interest in the Company decreased to approximately 46%. Weston remains the controlling shareholder of the Company at the date of the acquisition.

The Company has three reportable operating segments: Retail, Financial Services and Choice Properties (see note 19).

Quarterly net earnings are affected by seasonality and the timing of holidays. The impact of seasonality is greatest in the fourth quarter and least in the first quarter.

Note 2. Significant Accounting Policies

The significant accounting policies and critical accounting estimates and judgments as disclosed in the Company's 2013 audited annual financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements, except where noted below.

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

Statement of Compliance

The unaudited interim period condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. The unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company's 2013 audited annual consolidated financial statements and accompanying notes.

These unaudited interim period condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on April 29, 2014.

Accounting Standards Implemented in 2014

The Company implemented the amendments to IAS 32, "Financial Instruments: Presentation" and International Financial Reporting Interpretations Committee ("IFRIC") 21, "Levies" retrospectively in the first quarter of 2014.

The Company has assessed the impact of the above and concluded there were no significant impacts on the Company's unaudited interim period condensed consolidated financial statements.

Note 3. Acquisition of Shoppers Drug Mart Corporation

On March 28, 2014, subsequent to the end of the first quarter, the Company acquired all of the outstanding shares of Shoppers Drug Mart for total consideration of $12.3 billion, comprised of approximately $6.6 billion of cash and the issuance of approximately 119.5 million common shares of the Company.

The cash portion of the acquisition was financed as follows:

- $3.5 billion was obtained through an unsecured term loan facility bearing interest at a rate equal to the Bankers' Acceptance rate plus 1.75% and maturing March 28, 2019 ;
- $1.6 billion of proceeds from the issuance of unsecured notes in the third quarter of 2013 were released from escrow (see note 7);
- $500 million was received in consideration of the issuance of 10.5 million common shares to Weston; and
- approximately $1.0 billion was used from cash on hand.

At closing, pursuant to an amendment introduced in 2013, the Company's $800 million committed credit facility ("Credit Facility") was increased to $1.0 billion and will expire on December 31, 2018.

Pursuant to a Consent Agreement reached with the Competition Bureau in the first quarter of 2014, the Company is required to divest of 14 Shoppers Drug Mart stores and four of the Company's franchise grocery stores, as well as nine pharmacy operations of the Company. The divestitures are not expected to have a material impact on the operations of the Company or the planned synergies.

The preliminary purchase equation is based on management's current best estimates of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The preliminary purchase price allocation as at March 28, 2014 is as follows:

Net assets acquired		
Cash and cash equivalents	$	27
Accounts receivable		534
Inventories		3,003
Prepaid expenses and other assets		67
Fixed assets		1,780
Investment properties		16
Goodwill		2,251
Intangible assets		9,470
Deferred tax assets		61
Other assets		6
Trade payables and other liabilities		(920)
Income taxes payable		(11)
Provisions		(19)
Short term debt		(295)
Associate interest		(174)
Long term debt		(1,127)
Deferred tax liabilities		(2,256)
Other liabilities		(140)
Total net assets acquired	$	12,273

The goodwill is attributable to synergies expected following the integration of Shoppers Drug Mart, improved competitive positioning in the retail market, and future growth of the Company's customer base as a result of the acquisition. The goodwill arising from this acquisition is not deductible for tax purposes.

Intangible assets are comprised of the following:

(millions of Canadian dollars except where otherwise indicated)			Estimated Useful Life
Prescription files	$	5,040	11 years
Brands		3,340	indefinite
Optimum loyalty program		490	18 years
Other		600	5 to 10 years
Total Intangible Assets	$	9,470	

In the first quarter of 2014, the Company incurred costs related to the acquisition of $23 million, of which $8 million was recorded in selling, general and administrative expenses and $15 million was recorded in net interest expense and other financing charges (note 4).

Upon closing of the acquisition, all amounts owing on Shoppers Drug Mart's revolving bank credit facility were repaid and the facility was cancelled. In addition, upon closing, the Company guaranteed the outstanding principal amount of Shoppers Drug Mart medium term notes ("MTNs") of $500 million, along with any accrued interest. The Company has also provided guarantees to various Canadian banks in support of the financing obtained by Shoppers Drug Mart associates.

On a pro forma basis, the Company's total revenue and net earnings for the first quarter of 2014 would have amounted to approximately $9.8 billion and $133 million, respectively, excluding the impact of transaction costs incurred by the Company and the fair value adjustment to inventory. This pro forma information incorporates the effect of the preliminary purchase equation as if the acquisition had been effective December 29, 2013.

Note 4. Net Interest Expense and Other Financing Charges

(millions of Canadian dollars)		March 22, 2014 (12 weeks)		March 23, 2013 (12 weeks)
Interest expense and other financing charges:				
Long term debt	$	71	$	66
Shoppers Drug Mart acquisition related costs (note 3)		18		—
Borrowings related to credit card receivables		9		9
Trust Unit distributions		11		—
Net interest on net defined benefit obligation (note 15)		2		5
Independent funding trusts		3		3
Dividends on capital securities		3		3
Fair value adjustment of Trust Unit Liability		12		—
	$	129	$	86
Interest income:				
Accretion income	$	(6)	$	(5)
Derivative financial instruments		—		(3)
Short term interest income		(5)		(2)
Security deposits[(i)]		(3)		—
	$	(14)	$	(10)
Net interest expense and other financing charges	$	115	$	76

(i) Includes interest income of $3 million (2013 – nil) related to $1.6 billion of proceeds from the issuance of senior unsecured notes held in escrow (see note 7), which subsequent to the end of the first quarter of 2014, was used to partially fund the acquisition of all of the outstanding common shares of Shoppers Drug Mart (see note 3).

Note 5. Income Taxes

Income tax expense for the first quarter of 2014 was $35 million (2013 – $62 million) and the effective income tax rate was 25.4% (2013 – 26.6%). The decrease in the effective income tax rate compared to the first quarter of 2013 was primarily due to an increase in prior year recoveries, partially offset by an increase in non-deductible amounts, including fair value adjustments on the Trust Unit Liability.

Note 6. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
Net earnings for basic earnings per share	$ 103	$ 171
Impact of dividends on capital securities	—	3
Net earnings for diluted earnings per share	$ 103	$ 174
Weighted average common shares outstanding (note 14) (in millions)	281.5	280.8
Dilutive effect of capital securities (in millions)	—	5.8
Dilutive effect of equity-based compensation (in millions)	2.0	1.4
Dilutive effect of certain other liabilities (in millions)	0.8	0.8
Diluted weighted average common shares outstanding (in millions)	284.3	288.8
Basic net earnings per common share ($)	$ 0.37	$ 0.61
Diluted net earnings per common share ($)	$ 0.36	$ 0.60

For the first quarter of 2014, 11,088,624 (2013 – 5,437,222) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

Note 7. Cash and Cash Equivalents, Short Term Investments and Security Deposits

The components of cash and cash equivalents, short term investments and security deposits were as follows:

Cash and Cash Equivalents

(millions of Canadian dollars)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Cash	$ 1,415	$ 145	$ 515
Cash equivalents:			
Bankers' acceptances	302	182	270
Government treasury bills	810	82	1,420
Bank term deposits	—	—	42
Corporate commercial paper	10	242	13
Other	—	38	—
Total cash and cash equivalents	$ 2,537	$ 689	$ 2,260

Short Term Investments

(millions of Canadian dollars)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Bankers' acceptances	$ 1	$ 42	$ 162
Government treasury bills	6	248	98
Corporate commercial paper	1	264	—
Government agency securities	30	281	30
Other	1	19	—
Total short term investments	$ 39	$ 854	$ 290

Security Deposits

(millions of Canadian dollars)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Cash	$ 96	$ 90	$ 102
Government treasury bills(i)	1,601	117	1,599
Total security deposits	$ 1,697	$ 207	$ 1,701

(i) Included in Government treasury bills is $1.6 billion of proceeds from the issuance of senior unsecured notes held in escrow as part of the financing for the acquisition of Shoppers Drug Mart. Subsequent to the end of the first quarter of 2014, the Company completed the acquisition of Shoppers Drug Mart and the proceeds were released from escrow (see note 3).

As at March 22, 2014, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $138 million (March 23, 2013 – $134 million; December 28, 2013 – $136 million), of which $96 million (March 23, 2013 – $105 million; December 28, 2013 – $102 million) was deposited with major financial institutions and classified as security deposits.

Note 8. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Gross credit card receivables	$ 2,446	$ 2,218	$ 2,585
Allowance for credit card receivables	(47)	(43)	(47)
Credit card receivables	$ 2,399	$ 2,175	$ 2,538
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust®*	750	600	750
Securitized to Other Independent Securitization Trusts	605	905	605

The Company, through 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. PC Bank sells and repurchases credit card receivables to Independent Securitization Trusts, including *Eagle Credit Card Trust® ("Eagle")* and Other Independent Securitization Trusts, from time to time depending on PC Bank's financing requirements.

The associated liability of *Eagle* is recorded in long term debt.

The associated liabilities related to the credit card receivables securitized to the Other Independent Securitization Trusts are recorded in short term debt (see note 11). The Company has arranged letters of credit on behalf of PC Bank, representing 9% (March 23, 2013 and December 28, 2013 – 9%) of the outstanding securitized liability for the benefit of the Other Independent Securitization Trusts in the amount of $54 million (March 23, 2013 – $81 million; December 28, 2013 – $54 million). In the event of a major decline in the income flow from, or in the value of, the securitized credit card receivables, the Other Independent Securitization Trusts can draw upon these letters of credit to recover up to a maximum of the amount outstanding on the letters of credit. Under its securitization programs, PC Bank is required to maintain at all times a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability and was in compliance with this requirement throughout the quarter.

Note 9. Inventories

For inventories recorded as at March 22, 2014, the Company recorded $12 million (March 23, 2013 – $12 million) as an expense for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold in the condensed consolidated statements of earnings. There were no reversals of previously recorded write-downs of inventories during the periods ended March 22, 2014 and March 23, 2013.

Note 10. Other Assets

(millions of Canadian dollars)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Fair value of cross currency swaps (note 17)	$ —	$ 51	$ —
Sundry investments and other receivables	143	142	136
Accrued benefit plan asset	48	2	106
Other	46	29	43
Other assets	$ 237	$ 224	$ 285

Note 11. Short Term Debt

The outstanding short term debt balances relate to credit card receivables securitized to the Other Independent Securitization Trusts (see note 8).

In the first quarter of 2014, PC Bank extended the maturity date for two of its Other Independent Securitization Trust agreements from the second quarter of 2015 to the second quarter of 2016, with all other terms and conditions remaining substantially the same.

Note 12. Long Term Debt

Loblaw Companies Limited Notes During the first quarter of 2014, the Company's $100 million 6.0% MTN due March 3, 2014 matured and was repaid. As at March 22, 2014, the Company recorded $350 million (March 23, 2013 – $300 million; December 28, 2013 – $450 million) of its MTNs as long term debt due within one year.

Choice Properties In the first quarter of 2014, Choice Properties issued $250 million principal amount of Series C senior unsecured debentures with a 7-year term and a coupon rate of 3.498% per annum and $200 million principal amount of Series D senior unsecured debentures with a 10-year term and a coupon rate of 4.293% per annum, under its Short Form Base Shelf Prospectus. The majority of the proceeds were used to repay $440 million of transferor notes held by Loblaw.

Subsequent to the end of the quarter, Choice Properties Limited Partnership entered into a Master Trust Indenture agreement with Computershare Trust Company of Canada. First and second supplemental indentures were created in order to facilitate the replacement of certain tranches of transferor notes held by Loblaw, with the replacement notes containing the same principal amounts, interest rates and maturity dates. The remaining terms and conditions are substantially similar to the original notes. Loblaw subsequently sold the replacement notes to unrelated parties and received net proceeds of $509 million. Loblaw used these proceeds and existing cash to repay $600 million of the $3.5 billion term loan drawn to fund a portion of the cost to acquire Shoppers Drug Mart (see note 3).

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for the first quarters of 2014 and 2013:

(millions of Canadian dollars)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
Balance, beginning of period	$ 430	$ 303
GICs issued	20	—
GICs matured	(7)	(10)
Balance, end of period	$ 443	$ 293

As at March 22, 2014, $49 million in GICs were recorded as long term debt due within one year (March 23, 2013 – $34 million; December 28, 2013 – $52 million).

Independent Funding Trusts As at March 22, 2014, the independent funding trusts had drawn $469 million (March 23, 2013 – $468 million; December 28, 2013 – $475 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

Subsequent to the end of the first quarter, the Company renewed the revolving committed credit facility and extended the maturity date to May 6, 2017.

The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% of the principal amount of the loans outstanding. As at March 22, 2014, the Company had provided a letter of credit in the amount of $50 million (March 23, 2013 and December 28, 2013 – $48 million).

Committed Credit Facilities As at March 22, 2014, March 23, 2013 and December 28, 2013, the Company had not drawn on its Credit Facility. Subsequent to the end of the first quarter, effective on the closing of the Shoppers Drug Mart acquisition, the Credit Facility was increased to $1.0 billion (see note 3).

As at March 22, 2014 and December 28, 2013, Choice Properties had not drawn on its committed credit facility, which was established in the third quarter of 2013.

Note 13. Other Liabilities

(millions of Canadian dollars)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Net defined benefit plan obligation	$ 276	$ 426	$ 238
Other long term employee benefit obligation	113	117	107
Deferred vendor allowances	14	22	16
Equity-based compensation liability (note 16)	1	10	1
Other	174	166	192
Other liabilities	$ 578	$ 741	$ 554

Note 14. Share Capital

Common Shares (authorized – unlimited) Common shares issued are fully paid and have no par value. The activity in the common shares issued and outstanding during the period was as follows:

	March 22, 2014 (12 weeks)			March 23, 2013 (12 weeks)		
	Number of Common Shares		Common Share Capital	Number of Common Shares		Common Share Capital
Issued and outstanding, beginning of period	282,311,573	$	1,648	281,680,157	$	1,567
Issued for settlement of stock options	304,208		13	313,353		13
Issued and outstanding, end of period	282,615,781	$	1,661	281,993,510	$	1,580
Shares held in trust, beginning of period	(1,067,323)	$	(6)	—	$	—
Purchases for future settlement of RSUs and PSUs	—		—	(1,103,500)		(6)
Released for settlement of RSUs and PSUs (note 16)	236,059		1	—		—
Shares held in trust, end of period	(831,264)	$	(5)	(1,103,500)	$	(6)
Issued and outstanding net of shares held in trust, end of period	281,784,517	$	1,656	280,890,010	$	1,574
Weighted average outstanding, net of shares held in trust	281,466,596			280,787,779		

Subsequent to the end of the first quarter of 2014, the Company issued common shares in connection with the acquisition of Shoppers Drug Mart (see note 3).

Dividends The following table summarizes the Company's cash dividends declared for the first quarters of 2014 and 2013:

	March 22, 2014 (12 weeks)(i)		March 23, 2013 (12 weeks)	
Dividends declared per share ($):				
Common share	$	0.24	$	0.22
Second Preferred Share, Series A	$	0.37	$	0.37

(i) Dividends declared on common shares have a payment date of April 1, 2014. Dividends declared on Second Preferred Shares, Series A have a payment date of April 30, 2014.

For financial statement presentation purposes, Second Preferred Shares, Series A dividends of $3 million (2013 – $3 million) were included as a component of net interest expense and other financing charges in the condensed consolidated statements of earnings (see note 4).

Subsequent to the end of the first quarter of 2014, the Board declared a quarterly dividend of $0.245 per common share, an increase of approximately 2.1%, payable July 1, 2014, and declared a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable July 31, 2014.

Normal Course Issuer Bid During the first quarter of 2014 the Company did not purchase any common shares for cancellation under its Normal Course Issuer Bid ("NCIB").

The Company holds shares in trust for settlement of the Company's Restricted Share Unit ("RSU") and Performance Share Unit ("PSU") obligations (see note 16). In the first quarter of 2013, the Company purchased 1,103,500 shares under its NCIB for cash consideration of $46 million and placed these shares into the trusts for future settlement of the Company's RSU and PSU obligations, resulting in a charge to retained earnings of $40 million and a $6 million reduction in common share capital.

Subsequent to the first quarter of 2014, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or enter into equity derivatives to purchase up to 20,636,596 of the Company's common shares, representing approximately 5% of the common shares outstanding after taking into account shares issued upon the acquisition of Shoppers Drug Mart (see note 3). In accordance with the rules and by-laws of the TSX, the Company may purchase its shares from time to time at the then market price of such shares.

Note 15. Post-Employment and Other Long Term Employee Benefits

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

(millions of Canadian dollars)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
Post-employment benefit cost (income) recognized in operating income(1)	$ 33	$ (15)
Other long term employee benefits cost recognized in operating income	6	5
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 4)	2	5
Actuarial losses (gains) before income taxes recognized in other comprehensive (loss) income	93	(47)

(1) Included in the 2013 post-employment benefit cost (income) recognized in operating income is a $51 million gain related to the announced amendments to certain of the Company's defined benefit plans impacting certain employees retiring after January 1, 2015.

The post-employment benefit cost (income) included costs for the Company's defined benefit plans, defined contribution pension plans and the multi-employer pension plans in which it participates. The other long term employee benefits cost included costs for the Company's long term disability plan. The actuarial losses recognized in first quarter of 2014 were primarily driven by decreases in the discount rates, partially offset by higher than expected returns on assets. The actuarial gains recorded in first quarter of 2013 were primarily due to higher than expected returns on assets.

Note 16. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Loblaw stock option, RSU, PSU, Director Deferred Share Unit, Executive Deferred Share Unit plans, and the unit-based compensation plans of Choice Properties, was $7 million for the first quarter of 2014 (2013 – $8 million). The expense was recognized in selling, general and administrative expenses.

The carrying amount of the Company's equity-based compensation arrangements was recorded on the consolidated balance sheet as follows:

(millions of Canadian dollars)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Other liabilities	$ 1	$ 10	$ 1
Contributed surplus	80	68	87

The following are details related to the equity-based compensation plans of Loblaw:

Stock Option Plan The following is a summary of Loblaw's stock option plan activity:

(Number of Options)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
Outstanding options, beginning of period	10,995,995	12,538,928
Granted	—	1,470,267
Exercised	(304,208)	(313,353)
Forfeited/cancelled	(91,259)	(81,314)
Expired	(499,935)	(48,742)
Outstanding options, end of period	10,100,593	13,565,786

There were no stock options granted during the first quarter of 2014. The weighted average exercise price of stock options granted in 2013 was $40.56. In addition, the Company issued common shares on the exercise of stock options with a weighted average share price during the first quarter of $44.79 (2013 – $40.21) and received cash consideration of $10 million (2013 – $11 million).

The fair value of stock options granted during the first quarter of 2013 was $11 million. The assumptions used to measure the fair value of options granted during the first quarter of 2013 under the Black-Scholes valuation model at the grant date were as follows:

	March 23, 2013 (12 weeks)
Expected dividend yield	2.1%
Expected share price volatility	19.8% – 23.5%
Risk-free interest rate	1.2% – 1.4%
Expected life of options	4.2 – 6.5 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at March 23, 2013 was 15.0%.

Restricted Share Unit Plan The following is a summary of Loblaw's RSU plan activity:

(Number of Awards)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
RSUs, beginning of period	1,084,514	1,038,271
Granted	—	322,393
Settled	(234,850)	(239,150)
Forfeited	(6,991)	(12,367)
RSUs, end of period	842,673	1,109,147
RSUs settled (millions of Canadian dollars)	$ —	$ 10

There were no RSUs granted during the first quarter of 2014. The fair value of RSUs granted during the first quarter of 2013 was $13 million.

Performance Share Unit Plan The following is a summary of Loblaw's PSU plan activity:

(Number of Awards)	March 22, 2014 (12 weeks)	March 23, 2013 (12 weeks)
PSUs, beginning of period	309,110	50,818
Granted	—	280,768
Settled	(1,209)	—
Forfeited/cancelled	(1,673)	—
PSUs, end of period	306,228	331,586

There were no PSUs granted during the first quarter of 2014. The fair value of PSUs granted during the first quarter of 2013 was $11 million.

During the first quarter of 2014, the Company settled RSUs and PSUs totalling 236,059 through the trusts established for settlement of each of the RSU and PSU plans (see note 14), which resulted in a $9 million increase to retained earnings and a $1 million increase in common share capital.

Note 17. Financial Instruments

The following tables provide a comparison of the carrying and fair values for each classification of financial instruments:

(millions of Canadian dollars)	As at March 22, 2014 Total carrying amount	As at March 22, 2014 Total fair value	As at March 23, 2013 Total carrying amount	As at March 23, 2013 Total fair value	As at December 28, 2013 Total carrying amount	As at December 28, 2013 Total fair value
Financial assets designated as fair value through profit or loss:						
Cash and cash equivalents	$ 2,537	$ 2,537	$ 689	$ 689	$ 2,260	$ 2,260
Short term investments	39	39	854	854	290	290
Security deposits	1,697	1,697	207	207	1,701	1,701
Loans and receivables (amortized cost):						
Accounts receivable	621	621	519	519	618	618
Credit card receivables	2,399	2,399	2,175	2,175	2,538	2,538
Franchise Loans Receivable	363	363	372	372	375	375
Certain other assets	69	69	79	79	67	67
Financial assets required to be classified as fair value through profit or loss:						
Derivatives included in prepaid expenses and other assets	2	2	41	41	2	2
Derivatives included in other assets	—	—	51	51	—	—
Total financial assets	$ 7,727	$ 7,727	$ 4,987	$ 4,987	$ 7,851	$ 7,851

(millions of Canadian dollars)	As at March 22, 2014 Total carrying amount	As at March 22, 2014 Total fair value	As at March 23, 2013 Total carrying amount	As at March 23, 2013 Total fair value	As at December 28, 2013 Total carrying amount	As at December 28, 2013 Total fair value
Financial liabilities required to be classified as fair value through profit or loss:						
Derivatives included in trade payables and other liabilities	$ 4	$ 4	$ 8	$ 8	$ 4	$ 4
Trust Unit Liability	703	703	—	—	688	688
Other financial liabilities (amortized cost):						
Trade payables and other liabilities	3,293	3,293	3,203	3,203	3,793	3,793
Short term debt	605	605	905	905	605	605
Long Term debt	8,057	8,850	5,673	6,347	7,680	8,188
Capital Securities	224	237	223	238	224	236
Certain other liabilities	10	10	43	43	40	40
Total financial liabilities	$ 12,896	$ 13,702	$ 10,055	$ 10,744	$ 13,034	$ 13,554

The following table presents the fair value hierarchy of financial assets and financial liabilities, excluding those classified as amortized cost that are short term in nature:

(millions of Canadian dollars)	As at March 22, 2014	As at March 23, 2013	As at December 28, 2013
Level 1			
Financial assets			
Designated as fair value through profit or loss	$ 1,511	$ 235	$ 617
Financial liabilities			
Classified as fair value through profit or loss	703	—	688
Other financial liabilities (amortized cost)	237	238	236
Level 2			
Financial assets			
Classified as fair value through profit or loss	$ 2	$ 92	$ 2
Designated as fair value through profit or loss	2,762	1,515	3,634
Loans and receivables (amortized cost)	8	12	8
Financial liabilities			
Classified as fair value through profit or loss	—	5	—
Other financial liabilities (amortized cost)	8,850	6,347	8,188
Level 3			
Financial assets			
Loans and receivables (amortized cost)	$ 424	$ 439	$ 434
Financial liabilities			
Classified as fair value through profit or loss	4	3	4
Other financial liabilities (amortized cost)	10	43	40

There were no transfers between levels of the fair value hierarchy.

The level 3 financial instruments classified as fair value through profit or loss as at March 22, 2014, March 23, 2013 and December 28, 2013 consist of embedded derivatives on purchase orders placed in neither Canadian dollars, nor the functional currency of the vendor. These derivatives are valued using a market approach based on the differential in exchange rates and timing of settlement. The significant unobservable input used in the fair value measurement is the cost of purchase orders. Significant increases (decreases) in any of the inputs would result in a significantly higher (lower) fair value measurement.

The fair value of the embedded foreign currency derivative classified as Level 3 included in trade payables and other liabilities as at March 22, 2014 was $4 million (March 23, 2013 – $3 million; December 28, 2013 – $4 million). During the first quarter of 2014, a nominal fair value loss (2013 – $2 million) was recorded in operating income. A 1% increase (decrease) in foreign currency exchange rates would result in a $1 million gain (loss) in fair value.

During the first quarter of 2014, financial instruments designated as fair value through profit or loss recognized a gain of $7 million in earnings before income taxes (2013 – $28 million). In addition, during the first quarter of 2014 a loss of $10 million (2013 – $23 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

During the first quarter of 2014, net interest expense of $109 million (2013 – $76 million) was recorded related to financial instruments not classified or designated as fair value through profit or loss.

The following is a discussion of the Company's derivative instruments:

Cross Currency Swaps As at the end of the first quarter of 2013, Glenhuron Bank Limited ("Glenhuron") held cross currency swaps to offset the effect of translation gains and losses relating to US dollar ("USD") cash and cash equivalents, short term investments and security deposits. Glenhuron unwound these cross currency swaps during the fourth quarter of 2013.

As at the end of the first quarter of 2013, Loblaw held cross currency swaps to exchange $296 million Canadian dollars for USD $300 million, for settlement of Loblaw's US private placement ("USPP") notes included in long term debt. During the second and third quarters of 2013, the Company settled its USD $300 million USPP cross currency swaps.

The following table summarizes the financial position of the cross currency swaps:

(millions of Canadian dollars)	Glenhuron Cross Currency Swaps As at March 23, 2013	USPP Cross Currency Swaps As at March 23, 2013
Exchange amount	$ 1,170	$ 296
Cumulative unrealized foreign currency exchange rate receivable recorded in:		
Prepaid expenses and other assets	$ 34	$ 6
Other assets	$ 42	$ 9

The following table summarizes the impact to operating income resulting from changes in fair value of the cross currency swaps and the underlying exposures:

(millions of Canadian dollars)	Glenhuron Cross Currency Swaps March 23, 2013 (12 weeks)	USPP Cross Currency Swaps March 23, 2013 (12 weeks)
Fair value loss (gain) related to swaps	31	(8)
Translation (gain) loss related to the underlying exposures	(28)	8

Interest Rate Swaps As at the end of the first quarter of 2013, the Company maintained a notional $150 million in interest rate swaps which paid a fixed-rate of interest of 8.38%. As at March 23, 2013, the fair value of these interest rate swaps of $5 million was recorded in trade payables and other liabilities and the Company recognized a nominal fair value gain in operating income related to these swaps. During the second and third quarters of 2013, the Company settled these interest rate swaps.

Equity Forward Contracts During the first quarter of 2013, Glenhuron paid $16 million to settle the remaining equity forwards representing 1,103,500 Loblaw common shares. Glenhuron recognized a nominal loss in operating income related to these forwards.

Other Derivatives The Company also maintains other financial derivatives including foreign exchange forwards, electricity forwards and fuel exchange traded futures and options. During the first quarter of 2014, the Company recognized a $3 million gain (2013 – $2 million) in operating income. As at March 22, 2014, a cumulative unrealized gain of $2 million was recorded in prepaid expenses and other assets (March 23, 2013 – $1 million; December 28, 2013 – $2 million).

Trust Unit Liability As at March 22, 2014, the fair value of the Trust Unit Liability of $703 million (March 23, 2013 – nil; December 28, 2013 – $688 million) was recorded on the condensed consolidated balance sheet. During the first quarter of 2014, the Company recorded a fair value loss of $12 million in net interest expense and other financing charges related to Choice Properties' Trust Units ("Units") (see note 4). In addition, Choice Properties issued 340,722 Units (2013 – nil) to eligible unitholders under its distribution reinvestment plan, which resulted in a $3 million increase (2013 – nil) to the Trust Unit Liability. Units held by unitholders other than the Company are presented as a liability on the Company's consolidated balance sheet as the Units are redeemable for cash at the option of the holder, subject to certain restrictions. As at the end of the first quarter of 2014, the Company held an 82.1% ownership in Choice Properties.

Franchise Loans Receivable and Franchise Investments in Other Assets The value of Loblaw franchise loans receivable of $363 million (March 23, 2013 – $372 million; December 28, 2013 – $375 million) was recorded on the consolidated balance sheets. During the first quarter of 2014, the Company recorded an impairment loss of $1 million (2013 – $3 million) in operating income related to these loans receivable.

The value of Loblaw franchise investments of $60 million (March 23, 2013 – $67 million; December 28, 2013 – $58 million) was recorded in other assets. During the first quarter of 2014, the Company recorded a $1 million gain (2013 – $5 million loss) in operating income related to these investments.

Note 18. Contingent Liabilities

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

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.

Shoppers Drug Mart has been served with an Amended Statement of Claim in a proposed class action proceeding that has been filed under the Ontario Superior Court of Justice by two licensed Associate-owners, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement, in the amount of $500 million. The proposed class action comprises all of Shoppers Drug Mart's current and former licensed Associate-owners residing in Canada, other than in Québec, who are parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Ontario Superior Court of Justice certified as a class proceeding portions of the action. While Shoppers Drug Mart continues to believe that the claim is without merit and will vigorously defend the claim, the outcome of this matter cannot be predicted with certainty.

Tax The Company is subject to tax audits from various government and regulatory agencies on an ongoing 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 legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments. These reassessments could have a material impact on the Company in future periods.

In 2012, the Company received indication from the Canada Revenue Agency that it intends to proceed with a reassessment of the tax treatment of the Company's wholly owned subsidiary, Glenhuron. At this stage, no reassessment has yet been received, and accordingly, it is not possible to quantify the amount of any potential reassessment. While the Company does not expect the ultimate outcome to be material, such matters cannot be predicted with certainty and could result in a material charge for the Company in future periods.

Indemnification Provisions The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representation and warranty or with future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. Given the nature of such indemnification provisions, the Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Note 19. Segment Information

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

- The Retail segment, which consists primarily of retail food, drugstore, gas bar, apparel and other general merchandise operations;
- The Financial Services segment, which provides 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; and
- The Choice Properties segment, which owns and leases income-producing commercial properties. The Choice Properties segment information presented below reflects the accounting policies of Choice Properties, which may differ from those of the consolidated Company. Any differences in policies are eliminated in Consolidation and Eliminations.

The Company's chief operating decision maker evaluates segment performance on the basis of adjusted operating income(1) and adjusted EBITDA(1), as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

	March 22, 2014 (12 weeks)					March 23, 2013 (12 weeks)				
(millions of Canadian dollars) (unaudited)	Retail	Financial Services(i)	Choice Properties(2)	Consolidation and Eliminations(ii)	Total	Retail	Financial Services(i)	Choice Properties	Consolidation and Eliminations(ii)	Total
Revenue	$ 7,095	$ 180	$ 167	$ (150)	$ 7,292	$ 7,037	$ 165	$ —	$ —	$ 7,202
Operating Income	$ 217	$ 36	$ 118	$ (118)	$ 253	$ 279	$ 30	$ —	$ —	$ 309
Adjusting Items(1)	9	—	6	—	15	(51)	—	—	—	(51)
Adjusted Operating Income(1)	226	36	124	(118)	268	228	30	—	—	258
Depreciation and Amortization	$ 190	$ 2	$ —	$ 3	$ 195	$ 180	$ 3	$ —	$ —	$ 183
Adjusted EBITDA(1)	416	38	124	(115)	463	408	33	—	—	441
Net interest expense and other financing charges	70	13	126	(94)	115	65	11	—	—	76

(i) Included in Financial Services revenue is $89 million (March 23, 2013 – $77 million) of interest income.

(ii) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $115 million of rental revenue and $35 million of cost recovery recognized by Choice Properties, received from the Retail segment.
- Operating income includes the elimination of the $115 million impact of rental revenue described above and the recognition of $3 million of depreciation expense for certain investment properties recorded by Choice Properties and measured at fair value.
- Net interest expense and other financing charges includes the elimination of $69 million of interest expense included in Choice Properties related to debt owing to the Company; Unit distributions to external unitholders of $11 million, which excludes distributions paid to the Company, which are reflected as a reduction of equity in Choice Properties, and presented as interest expense for the consolidated Company; the elimination of a $48 million fair value loss recognized by Choice Properties on Class B Limited Partnership units held by the Company; and a $12 million fair value loss on the Company's Trust Unit Liability.

(1) Certain items are excluded from operating income and EBITDA to derive adjusted operating income and adjusted EBITDA, respectively. Adjusted operating income and adjusted EBITDA are used internally by management when analyzing segment underlying performance.

(2) Results are for the period ended March 31, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to March 22, 2014 are included in Consolidation and Eliminations.

(millions of Canadian dollars)		As at March 22, 2014		As at March 23, 2013		As at December 28, 2013
Total Assets						
Retail	$	17,336	$	14,964	$	17,308
Financial Services		2,736		2,496		2,801
Choice Properties[1]		7,407		—		7,448
Consolidation and Eliminations[i]		(6,863)		—		(6,798)
Total	$	20,616	$	17,460	$	20,759

(i) Consolidation and Eliminations includes the elimination of certain investment properties held by Choice Properties measured at fair value, which are presented in the consolidated results as fixed assets and investment properties measured at cost.

(millions of Canadian dollars)		March 22, 2014 (12 weeks)		March 23, 2013 (12 weeks)
Additions to Fixed Assets and Goodwill and Intangible Assets				
Retail	$	87	$	128
Financial Services		5		—
Choice Properties[1]		25		—
Total	$	117	$	128

(1) Results are for the period ended March 31, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to March 22, 2014 are included in Consolidation and Eliminations.

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

The following is the Company's updated earnings coverage ratio for the rolling 52-week period ended March 22, 2014 in connection with the Company's Amended Short Form Base Shelf Prospectus dated August 29, 2013. The earnings coverage ratio gives effect to issuance and repayment of certain financial liabilities subsequent to March 22, 2014, including the issuance of a $3.5 billion term loan by the Company in connection with the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"). The following earnings coverage ratio does not (i) give effect to any other pro forma impact of the acquisition of Shoppers Drug Mart; and (ii) purport to be indicative of earnings coverage ratios for any future periods.

Earnings coverage on financial liabilities	2.02 times

The earnings coverage ratio on financial liabilities is equal to consolidated net earnings (before interest on short term debt and long term debt, dividends on capital securities, Trust Unit ("Unit") distributions, fair value adjustment of Trust Unit Liability and income taxes) divided by consolidated interest on short term and long term debt, dividends on capital securities, Unit distributions and the fair value adjustment of the Trust Unit Liability. For the purposes of calculating the earnings coverage ratio set forth above, long term debt includes the current portion of long term debt.

Financial Summary[1]

As at or for the periods ended March 22, 2014 and March 23, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013 (12 weeks)
Consolidated Results of Operations		
Revenue	$ 7,292	$ 7,202
Operating income	253	309
Adjusted operating income[2]	268	258
Adjusted EBITDA[2]	463	441
Net interest expense and other financing charges	115	76
Net earnings	103	171
Adjusted net earnings[2]	139	134
Consolidated Financial Position and Cash Flows		
Adjusted debt[2]	6,434	4,341
Cash and cash equivalents, short term investments and security deposits	4,273	1,750
Cash flows from operating activities	(46)	(29)
Capital investment	116	119
Free cash flow[2]	(420)	(342)
Consolidated Per Common Share ($)		
Basic net earnings	0.37	0.61
Adjusted basic net earnings[2]	0.49	0.48
Consolidated Financial Measures and Ratios		
Revenue growth	1.2%	3.8 %
Adjusted operating margin[2]	3.7%	3.6 %
Adjusted EBITDA margin[2]	6.3%	6.1 %
Interest coverage[2]	2.2x	4.1x
Adjusted debt[2] to rolling year adjusted EBITDA[2]	3.0x	2.1x
Rolling year return on average net assets[2]	9.9%	10.3 %
Rolling year return on average shareholders' equity	8.3%	10.8 %
Retail Results of Operations		
Sales	7,095	7,037
Gross profit	1,580	1,576
Operating income	217	279
Adjusted operating income[2]	226	228
Adjusted EBITDA	416	408
Retail Operating Statistics		
Same-store sales growth	0.9%	2.8 %
Gross profit percentage	22.3%	22.4 %
Adjusted operating margin[2]	3.2%	3.2 %
Adjusted EBITDA margin[2]	5.9%	5.8 %
Retail square footage (in millions)	51.9	51.5
Number of corporate stores	558	573
Number of franchise stores	508	482
Financial Services Results of Operations		
Revenue	180	165
Operating income	36	30
Earnings before income taxes	23	19
Financial Services Operating Measures and Statistics		
Average quarterly net credit card receivables	2,469	2,240
Credit card receivables	2,399	2,175
Allowance for credit card receivables	47	43
Annualized yield on average quarterly gross credit card receivables	14.2%	13.5 %
Annualized credit loss rate on average quarterly gross credit card receivables	4.5%	4.2 %
Choice Properties Results of Operations[3]		
Revenue	167	—
Operating income	118	—
Adjusted operating income[2]	124	—
Net interest expense and other financing charges	126	—
Choice Properties Operating Measures[3]		
Net operating income[2]	115	—
Funds from operations[2]	87	—
Adjusted funds from operations[2]	69	—
Adjusted funds from operations per unit diluted[2] ($)	0.19	—
Adjusted funds from operations payout ratio[2]	87.8%	—

(1) For financial definitions and ratios refer to the Glossary beginning on page 109 of the Company's 2013 Annual Report.
(2) See Non-GAAP financial measures beginning on page 27 of the Management's Discussion and Analysis in this report.
(3) Results are for the period ended March 31, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to March 22, 2014 are included in Consolidation and Eliminations.

Corporate Profile

The Company is Canada's food and pharmacy leader, the nation's largest retailer, and the majority unitholder of Choice Properties Real Estate Investment Trust. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, banking, and wireless mobile products and services. With more than 2,300 corporate, franchised and Associate-owned locations, Loblaw, its franchisees, and Associate-owners employ approximately 192,000 full and part-time employees, making it one of Canada's largest private sector employers.

Loblaw's purpose - *Live Life Well* - puts first the needs and well-being of Canadians who make one billion transactions annually in the Company's stores. Loblaw is positioned to meet and exceed those needs in many ways: convenient locations; more than 1,050 grocery stores that span the value spectrum from discount to specialty; full-service pharmacies at more than 1,250 Shoppers Drug Mart and Pharmaprix locations and more than 500 Loblaw banner store locations; *PC Financial* no-fee banking; affordable *Joe Fresh* fashion and family apparel; and three of Canada's top consumer brands - *President's Choice*®, *noname*® and *Life Brand*®. Through the *PC Plus*™ and *Shoppers Optimum*® loyalty programs, more than one in every three Canadians are rewarded for shopping with the Company.

Trademarks

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

Shareholder Information

Registrar and Transfer Agent

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International direct dial:	(514) 982-7555

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

Investor Relations

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

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on April 30, 2014 at 11:00 a.m. (EST).

To access via tele-conference please dial (416) 642-5212. The playback will be made available two hours after the event at (647) 436-0148, access code: 6056008. To access via audio webcast please visit loblaw.ca, go to Investor Centre and click on webcast. Pre-registration will be available. Full details about the conference call and webcast, as well as a summary presentation of first quarter 2014 highlights, are available on the Loblaw Companies Limited website at loblaw.ca.

Annual Meeting of Shareholders

The 2014 Annual Meeting of Shareholders of Loblaw Companies Limited will be held on Thursday, May 1, 2014 at 11:00 a.m. (EST) at the Mattamy Athletic Centre, 50 Carlton Street, Toronto, Canada M5B 1J2.

To access via tele-conference, please dial (416) 642-5212. The playback will be available two hours after the event at (647) 436-0148, access code: 7521292. To access via audio webcast please visit the Investor Centre section of loblaw.ca. Pre-registration will be available.

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