



Loblaw
COMPANIES LIMITED

Q2 SECOND QUARTER REPORT TO SHAREHOLDERS

24 WEEKS ENDING JUNE 14, 2014

2014 Second Quarter Report to Shareholders

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Footnote Legend

(1) To be read in conjunction with Forward-Looking Statements beginning on page 13.

(2) See Non-GAAP Financial Measures beginning on page 37.

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

(4) Certain 2013 figures have been amended to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 37 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 35.

2014 Second Quarter Highlights[1]

“The second quarter of 2014 marked the opening of the next chapter for Loblaw, combining the number one food retailer in Canada with the number one pharmacy and beauty retailer,” said Galen G. Weston, President and Executive Chairman, Loblaw Companies Limited. “And while the industry backdrop continues to be challenging, this quarter we advanced our business both financially and operationally, including delivering strong same-store sales growth, as well as solid operational performance.

"For the balance of the year, we expect to continue to improve our competitive positioning, advance our businesses and realize material synergies related to the transaction,” concluded Mr. Weston.

- The Company successfully completed its acquisition of Shoppers Drug Mart Corporation (“Shoppers Drug Mart”) and, as a result, the second quarter results include the full quarter consolidation of Shoppers Drug Mart and the associated acquisition related accounting adjustments, as reported in the Retail operating segment.
- Revenue of $10,307 million, an increase of 37.1% over the second quarter of 2013. Excluding the impact of the acquisition of Shoppers Drug Mart, revenue increased by 2.4% compared to the second quarter of 2013.
- Adjusted operating income[2] up 65.1% to $540 million compared to $327 million in the second quarter of 2013. Excluding the impact of the Shoppers Drug Mart acquisition, adjusted operating income[2] decreased by $6 million, or 1.8%, compared to the second quarter of 2013, including a charge of $22 million (2013 – $8 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements.
- Adjusted EBITDA[2] up 54.2% to $799 million compared to $518 million in the second quarter of 2013. Excluding the impact of the Shoppers Drug Mart acquisition, adjusted EBITDA[2] was flat compared to the second quarter of 2013, including a charge of $22 million (2013 – $8 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements.
- Adjusted basic net earnings per common share[2] up 17.2% to $0.75 compared to $0.64 in the second quarter of 2013.
- Basic net loss per common share[3], including charges of $1.88 related to certain Shoppers Drug Mart acquisition related amounts, inventory matters and certain other adjustments[i], of $1.13 compared to basic net earnings per common share[3] of $0.63 in the second quarter of 2013.
- Retail sales growth was 37.0% compared to the second quarter of 2013. Excluding the impact of the acquisition of Shoppers Drug Mart, retail sales growth was 1.6% and same-store sales[3] growth was 1.8%. Retail same-store sales[3] growth was positively impacted by approximately 0.1% due to the shift in the timing of Easter.
- Shoppers Drug Mart sales were $2,609 million during the quarter. On a same-store basis, Shoppers Drug Mart sales increased 2.5% over the second quarter of 2013. On a same-store basis, pharmacy sales increased 2.5% and front store sales increased 2.4% over the second quarter of 2013.
- The Company realized net synergies of approximately $8 million in the quarter associated with the acquisition of Shoppers Drug Mart, primarily in cost of goods sold.
- Free cash flow[2] was $801 million for the second quarter and $381 million year-to-date.

(i) Basic net loss per common share[3] of $1.13 in the second quarter of 2014 included the recognition of a portion of the Shoppers Drug Mart purchase-related fair value adjustments for inventory sold ($1.14 per share), the amortization of intangible assets ($0.23 per share), a charge related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system ($0.35 per share), the costs associated with the acquisition of Shoppers Drug Mart ($0.11 per share) and certain other adjustments ($0.05 per share).

Consolidated Quarterly Results of Operations

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4] (24 weeks)	$ Change	% Change
Revenue	$ 10,307	$ 7,520	$ 2,787	37.1 %	$ 17,599	$ 14,722	$ 2,877	19.5 %
Revenue excluding Shoppers Drug Mart	*7,698*	*7,520*	*178*	*2.4 %*	*14,990*	*14,722*	*268*	*1.8 %*
EBITDA[2]	(72)	512	(584)	(114.1)%	399	1,024	(625)	(61.0)%
Adjusted EBITDA[2]	799	518	281	54.2 %	1,285	979	306	31.3 %
Adjusted EBITDA margin[2]	7.8%	6.9%			7.3%	6.6%		
Adjusted EBITDA excluding Shoppers Drug Mart	*$ 518*	*$ 518*	*$ —*	*— %*	*$ 1,004*	*$ 979*	*$ 25*	*2.6 %*
Adjusted EBITDA margin excluding Shoppers Drug Mart	*6.7%*	*6.9%*			*6.7%*	*6.6%*		
Operating (loss) income	$ (456)	$ 321	$ (777)	(242.1)%	$ (180)	$ 650	$ (830)	(127.7)%
Adjusted operating income[2]	540	327	213	65.1 %	831	605	226	37.4 %
Adjusted operating margin[2]	5.2%	4.3%			4.7%	4.1%		
Adjusted operating income excluding Shoppers Drug Mart	*$ 321*	*$ 327*	*$ (6)*	*(1.8)%*	*$ 612*	*$ 605*	*$ 7*	*1.2 %*
Net interest expense and other financing charges	150	80	70	87.5 %	265	156	109	69.9 %
Net (loss) earnings	(456)	177	(633)	(357.6)%	(336)	363	(699)	(192.6)%
Adjusted net earnings[2]	301	181	120	66.3 %	457	330	127	38.5 %
Basic net (loss) earnings per common share[3] ($)	(1.13)	0.63	(1.76)	(279.4)%	(0.98)	1.29	(2.27)	(176.0)%
Adjusted basic net earnings per common share[2] ($)	0.75	0.64	0.11	17.2 %	1.34	1.17	0.17	14.5 %

In the second quarter of 2014, with the acquisition of Shoppers Drug Mart, the Company's results include the full quarter consolidation of Shoppers Drug Mart. The Shoppers Drug Mart acquired assets have been recognized in the Company's financial results at their fair value, including:

- A fair value increase to Shoppers Drug Mart's inventory on the date of acquisition of $798 million, which will be recognized in cost of merchandise inventories sold over the remainder of 2014, with a resulting negative impact on gross profit. In the second quarter of 2014, $622 million of the fair value was recognized from inventory sold; and
- A $6 billion increase for the acquisition of definite life intangibles assets which will be amortized over their estimated useful lives. In the second quarter of 2014, $125 million of amortization was recognized in operating income.

In the second quarter of 2014, the Company has also recognized $52 million of costs associated with the acquisition of Shoppers Drug Mart in operating income.

With the upgrade of its information technology ("IT") infrastructure, the Company expects to complete the conversion of its corporate grocery 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 enables the Company to estimate the cost of inventory using a more precise system-generated average cost. By the second quarter of 2014, a sufficient number of corporate grocery stores had been converted to allow the Company to record the impact of this inventory measurement and other conversion differences associated with implementation of a perpetual inventory system. The impact was estimated to be a $190 million decrease to the value of the inventory, which was recognized in gross profit in the second quarter of 2014.

As a result of the repayment of $1.6 billion of the $3.5 billion term loan facility, the Company recorded a $14 million charge related to the accelerated amortization of deferred financing costs in net interest and other financing charges.

The above impacts, as well as certain other items, have been excluded from the Company's adjusted metrics in order to provide a better reflection of the Company's underlying operating performance. See Non-GAAP Financial Measures on page 37. The Company does not anticipate any significant additional Shoppers Drug Mart acquisition costs to be incurred. The Company expects the following non-cash adjustments to negatively impact its results in future periods as follows:

- annual amortization of approximately $550 million associated with the acquired intangibles over the next ten years and decreasing thereafter;
- remaining inventory fair value adjustment of $176 million over the remainder of 2014 as the acquired inventory is sold, the majority of which will be incurred in the third quarter of 2014;
- further adjustments related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system will be recorded, if necessary, as the Company converts its remaining corporate grocery stores; and
- the Company may incur further accelerated amortization of deferred financing costs should the Company make significant one-time repayments on the term loan facility.

The Company's results in the second quarter of 2014 also included a charge of $22 million (2013 – $8 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements.

Revenue

- Revenue increased by $2,787 million compared to the second quarter of 2013, primarily due to the acquisition of Shoppers Drug Mart. Excluding the impact of the acquisition, consolidated revenue increased by 2.4% due to increases in the Company's Retail and Financial Services segments.

EBITDA(2)

- EBITDA(2) decreased by $584 million compared to the second quarter of 2013. EBITDA(2) was negatively impacted by the charge related to the inventory measurement and other conversion differences associated with implementation of a perpetual inventory system ($190 million), the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold ($622 million) as well as the costs related to the acquisition of Shoppers Drug Mart ($52 million).
- Adjusted EBITDA(2) increased by $281 million compared to the second quarter of 2013, primarily driven by the acquisition of Shoppers Drug Mart. Adjusted EBITDA margin(2) was 7.8% for the second quarter of 2014 compared to 6.9% in the same quarter in 2013. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted EBITDA(2) was flat compared to the second quarter of 2013, driven by a decrease in adjusted EBITDA(2) in the Company's Retail segment, which included a charge of $22 million (2013 – $8 million) related to the transition of certain stores to more cost effective and efficient operating terms under collective agreements, partially offset by an increase in adjusted EBITDA(2) in the Financial Services segment. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted EBITDA margin(2) was 6.7% compared to 6.9% in the same quarter in 2013.

Synergies

- The Company realized net synergies of approximately $8 million in the quarter associated with the acquisition of Shoppers Drug Mart, primarily in cost of goods sold.

Operating Income

- Operating income decreased by $777 million compared to the second quarter of 2013. Operating income was negatively impacted by the factors described in EBITDA(2) above and the amortization of intangible assets of $125 million related to the acquisition of Shoppers Drug Mart.
- Adjusted operating income(2) increased by $213 million compared to the second quarter of 2013, primarily driven by the acquisition of Shoppers Drug Mart. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted operating income(2) decreased by $6 million, including a charge of $22 million (2013 – $8 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements and an incremental increase in depreciation and amortization of $6 million.

Net Interest Expense and Other Financing Charges

- Net interest expense and other financing charges increased by $70 million compared to the second quarter of 2013 and included a $14 million charge related to the accelerated amortization of deferred financing costs due to the repayment of $1.6 billion of the $3.5 billion term loan facility and an unfavourable $8 million fair value adjustment related to the Trust Unit Liability for the change in the fair value of Choice Properties Real Estate Investment Trust's ("Choice Properties") Trust Units ("Units") held by unitholders other than the Company. Excluding these impacts, net interest expense and other financing charges increased by $48 million, driven by higher interest on long term debt, primarily as a result of debt incurred to finance the acquisition of Shoppers Drug Mart and Trust Unit distributions.

Income Taxes

- The income tax recovery was $150 million for the second quarter of 2014 compared to income tax expense of $64 million for the second quarter of 2013. The effective tax rate for the second quarter of 2014 was 24.8% compared to 26.6% for the second quarter of 2013. The decrease in the effective tax rate over the second quarter of 2013 was primarily due to an increase in non-deductible items, including the 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 26.9% (2013 – 26.7%).

Net (Loss) Earnings

- Net earnings decreased by $633 million compared to the second quarter of 2013, due to a net loss of $456 million, primarily driven by the decrease in operating income, the increase in net interest expense and other financing charges, partially offset by the change in income taxes as described above.
- Adjusted net earnings(2) increased by $120 million to $301 million compared to the second quarter of 2013, primarily driven by higher adjusted operating income(2), mainly as a result of the acquisition of Shoppers Drug Mart, partially offset by higher net interest and other financing charges after excluding certain items described above and the increase in income tax expense on adjusted net earnings(2).

Basic Net (Loss) Earnings Per Common Share(3)

- Basic net loss per common share(3) of $1.13 in the second quarter of 2014 included the recognition of a portion of the Shoppers Drug Mart purchase-related fair value adjustments for inventory sold ($1.14 per share), the amortization of intangible assets ($0.23 per share), a charge related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system ($0.35 per share), the costs associated with the acquisition of Shoppers Drug Mart ($0.11 per share) and certain other adjustments ($0.05 per share). This compares to basic net earnings per common share(3) of $0.63 in the second quarter of 2013.
- Adjusted basic net earnings per common share(2) were $0.75 in the second quarter of 2014 compared to adjusted basic net earnings per common share(2) of $0.64 in the second quarter of 2013, primarily due to the increase in adjusted net earnings as described above, partially offset by the dilutive effect of the 119.5 million common shares issued as part of the total consideration for the acquisition of Shoppers Drug Mart.

Capital Investment

- In the second quarter of 2014, the Company invested $222 million (2013 – $190 million) in capital expenditures.

Free Cash Flow(2)

- For the second quarter of 2014, free cash flow(2) was $801 million compared to $392 million in the second quarter of 2013. The increase in free cash flow(2) was primarily due to an increase in net earnings before non-cash items, reflecting the acquisition of Shoppers Drug Mart.

Adjusted Debt(2)

- The Company's adjusted debt(2) increased significantly as a result of the Shoppers Drug Mart acquisition. At closing, adjusted debt(2) increased to approximately $11.1 billion. During the second quarter of 2014, the Company made progress towards its debt reduction targets by repaying a $350 million Medium Term Note ("MTN") at maturity, resulting in an adjusted debt(2) balance of $10.7 billion as at June 14, 2014.
- During the second quarter of 2014, the Company also sold $1.5 billion of Transferor Notes to third parties and used the proceeds to repay a portion of its term loan. The overall consolidated impact was neutral to adjusted debt(2).

Retail Segment

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4] (24 weeks)	$ Change	% Change
Sales	$ 10,097	$ 7,372	$ 2,725	37.0 %	$ 17,192	$ 14,409	$ 2,783	19.3 %
Gross profit	1,840	1,642	198	12.1 %	3,443	3,238	205	6.3 %
Adjusted gross profit[2]	2,652	1,642	1,010	61.5 %	4,255	3,238	1,017	31.4 %
EBITDA[2]	(117)	482	(599)	(124.3)%	313	961	(648)	(67.4)%
Adjusted EBITDA[2]	748	488	260	53.3 %	1,187	916	271	29.6 %
Operating (loss) income	(496)	293	(789)	(269.3)%	(256)	592	(848)	(143.2)%
Adjusted operating income[2]	494	299	195	65.2 %	743	547	196	35.8 %

For the periods ended June 14, 2014 and June 15, 2013 (unaudited)	2014 (12 weeks)	2013[4] (12 weeks)	2014 (24 weeks)	2013[4] (24 weeks)
Same-store sales[3] growth[i]	1.8%	1.1%	1.3%	1.9%
Adjusted gross profit %[2]	26.3%	22.3%	24.7%	22.5%
Adjusted EBITDA margin[2]	7.4%	6.6%	6.9%	6.4%
Adjusted operating margin[2]	4.9%	4.1%	4.3%	3.8%

(i) Same-store sales[3] growth excludes the results of Shoppers Drug Mart. For Shoppers Drug Mart results, including same-stores sales[3] growth, see Addendum A on page 24 of the Company's Second Quarter News Release.

- The discussion of Retail operating results below focuses on Retail segment results excluding Shoppers Drug Mart. For a discussion of Shoppers Drug Mart results, please see Addendum A on page 24 of the Company's Second Quarter 2014 News Release.

Sales

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4] (24 weeks)	$ Change	% Change
Retail sales	$ 10,097	$ 7,372	$ 2,725	37.0%	$ 17,192	$ 14,409	$ 2,783	19.3%
Shoppers Drug Mart	2,609				2,609			
Excluding Shoppers Drug Mart	$ 7,488	$ 7,372	$ 116	1.6%	$ 14,583	$ 14,409	$ 174	1.2%

- In the second quarter of 2014, the increase in Retail sales of $2,725 million, or 37.0%, over the same period in the prior year included $2,609 million of sales related to Shoppers Drug Mart. Excluding the impact of the acquisition of Shoppers Drug Mart, Retail sales increased by $116 million, or 1.6%, compared to the same period in the prior year, as a result of the following factors:
  - Same-store sales[3] growth was 1.8% (2013 – 1.1%) and was positively impacted by approximately 0.1% due to the shift in the timing of Easter. Normalized for the shift, same-store sales[3] growth for the quarter was approximately 1.7%. Same-store sales[3] growth excluding gas bar for the quarter was 1.7% (2013 – 1.0%) and normalized for the effect of the shift in the timing of Easter, was approximately 1.6%;
  - Sales growth in food was moderate;
  - Sales in drugstore declined marginally;
  - Sales growth in gas bar was moderate;
  - Sales in general merchandise, excluding apparel, declined marginally;
  - Sales growth in retail apparel was moderate, while wholesale apparel sales declined significantly;
  - The Company's average quarterly internal food price index was in line with (2013 – lower than) the average quarterly national food price inflation of 2.5% (2013 – 1.5%) 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

- ◦ 22 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%.
- During the second quarter of 2014, Shoppers Drug Mart opened two new drug stores and closed five smaller pharmacy format stores.

Gross Profit

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4] (24 weeks)	$ Change	% Change
Retail gross profit	$ 1,840	$ 1,642	$ 198	12.1%	$ 3,443	$ 3,238	$ 205	6.3%
Adjustments[2]	812	—			812	—		
Adjusted Retail gross profit[2]	$ 2,652	$ 1,642	$ 1,010	61.5%	$ 4,255	$ 3,238	$ 1,017	31.4%
Adjusted gross profit %[2]	26.3%	22.3%			24.7%	22.5%		
Shoppers Drug Mart	$ 999				$ 999			
Excluding Shoppers Drug Mart	$ 1,653	$ 1,642	$ 11	0.7%	$ 3,256	$ 3,238	$ 18	0.6%
Adjusted gross profit %[2]	22.1%	22.3%			22.3%	22.5%		

- In the second quarter of 2014, gross profit increased by $198 million and included a $190 million charge related to inventory measurement and other conversion differences associated with implementation of a perpetual inventory system and the recognition of the fair value increment of $622 million on Shoppers Drug Mart inventory sold.
- Adjusted gross profit[2] increased by $1,010 million and included $999 million of adjusted gross profit related to the Shoppers Drug Mart acquisition. Adjusted gross profit[2] percentage was 26.3% compared to 22.3% in the second quarter of 2013.
- Excluding the impact of acquisition of Shoppers Drug Mart, adjusted gross profit percentage[2] decreased by 20 basis points to 22.1%. The decrease in adjusted gross profit percentage[2] was primarily due to a decrease in retail margins and higher shrink due to investments in fresh assortment.
- Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted gross profit[2] increased by $11 million, or 0.7%, compared to the same period in 2013, driven by higher sales, partially offset by a decline in gross profit percentage.

EBITDA[2]

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4] (24 weeks)	$ Change	% Change
Retail EBITDA[2]	$ (117)	$ 482	$ (599)	(124.3)%	$ 313	$ 961	$ (648)	(67.4)%
Adjustments[2]	865	6			874	(45)		
Adjusted Retail EBITDA[2]	$ 748	$ 488	$ 260	53.3 %	$ 1,187	$ 916	$ 271	29.6 %
Shoppers Drug Mart	281				281			
Excluding Shoppers Drug Mart	$ 467	$ 488	$ (21)	(4.3)%	$ 906	$ 916	$ (10)	(1.1)%

- EBITDA[2] decreased by $599 million compared to the second quarter of 2013 and was negatively impacted by a charge related to inventory measurement and other conversion differences associated with implementation of a perpetual inventory system, recognition of the fair value increment on inventory sold recorded on the acquisition of Shoppers Drug Mart, and by costs related to the acquisition of Shoppers Drug Mart.
- Adjusted EBITDA[2] increased by $260 million compared to the second quarter of 2013 and included $281 million of adjusted EBITDA[2] related to the Shoppers Drug Mart acquisition
- Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted EBITDA[2] decreased by $21 million and included a $14 million year-over-year increase in charges related to the transition of certain stores to more cost effective and efficient operating terms under collective agreements. The remaining decline was primarily driven by investments in the Company's franchise business, gains from the settlement of foreign exchange related financial derivative instruments recorded in the second quarter of 2013 and higher other operating costs, partially offset by supply chain and labour efficiencies, and higher gross profit.

- For the second quarter of 2014, adjusted EBITDA margin(2) was 7.4% compared to 6.6% in the same period in 2013 primarily driven by the inclusion of Shoppers Drug Mart. Excluding the impact of the acquisition, adjusted EBITDA margin(2) was 6.2% compared to 6.6% in the second quarter of 2013.

Operating (Loss) Income

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013(4) (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013(4) (24 weeks)	$ Change	% Change
Retail operating (loss) income	$ (496)	$ 293	$ (789)	(269.3)%	$ (256)	$ 592	$ (848)	(143.2)%
Adjustments(2)	990	6			999	(45)		
Adjusted Retail operating income(2)	$ 494	$ 299	$ 195	65.2 %	$ 743	$ 547	$ 196	35.8 %
Shoppers Drug Mart	219				219			
Excluding Shoppers Drug Mart	$ 275	$ 299	$ (24)	(8.0)%	$ 524	$ 547	$ (23)	(4.2)%

- Operating income decreased by $789 million compared to the second quarter of 2013 and was negatively impacted by the adjustments described above to EBITDA(2) and the amortization of intangible assets recorded on the acquisition of Shoppers Drug Mart. Adjusted operating income(2) increased by $195 million compared to the second quarter of 2013, and included $219 million of adjusted operating income(2) related to the Shoppers Drug Mart acquisition. Excluding the impact of the acquisition, adjusted operating income(2) decreased by $24 million, driven by the decrease in adjusted EBITDA(2) described above and an increase in depreciation and amortization(2) of $3 million.

Financial Services Segment

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014(i) (12 weeks)	2013 (12 weeks)	$ Change	% Change	2014(i) (24 weeks)	2013 (24 weeks)	$ Change	% Change
Revenue	$ 192	$ 148	$ 44	29.7%	$ 372	$ 313	$ 59	18.8%
Operating income	38	28	10	35.7%	74	58	16	27.6%
Earnings before income taxes	26	18	8	44.4%	49	37	12	32.4%

(millions of Canadian dollars except where otherwise indicated) (unaudited)	As at June 14, 2014	As at June 15, 2013	$ Change	% Change
Average quarterly net credit card receivables	$ 2,499	$ 2,253	$ 246	10.9%
Credit card receivables	2,561	2,279	282	12.4%
Allowance for credit card receivables	48	43	5	11.6%
Annualized yield on average quarterly gross credit card receivables(3)	13.8%	13.5%		
Annualized credit loss rate on average quarterly gross credit card receivables(3)	4.7%	4.3%		

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services’ fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 37 of this report. This represents a change from the previous quarters whereby results were presented consistent with the Company’s reporting calendar. The results for 2013 have not been restated.

- Revenue for the second quarter of 2014 increased by 29.7% compared to the second quarter of 2013. This increase was primarily driven by higher interest income and interchange income as a result of growth in the credit card portfolio.
- Operating income and earnings before income taxes increased by $10 million and $8 million, respectively, compared to the second quarter of 2013. These increases were mainly attributable to higher revenue described above, partially offset by higher operating costs as a result of an increase in the active customer base, higher credit losses from increased credit card receivable balances and higher costs associated with Financial Services' loyalty program.
- As at June 14, 2014, credit card receivables were $2,561 million, an increase of $282 million compared to June 15, 2013. This increase was primarily driven by growth in the active customer base as a result of continued investment in customer acquisitions and marketing initiatives over the past two years. As at June 14, 2014, the allowance for credit card receivables was $48 million, an increase of $5 million compared to June 15, 2013, primarily due to the growth in the credit card portfolio.

Choice Properties Segment

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars)	2014[i] (12 weeks)	2013[ii] (12 weeks)	2014[i] (24 weeks)	2013[ii] (24 weeks)
Revenue	$ 170	$ —	$ 337	$ —
Operating income	122	—	240	—
Adjusted operating income[2]	128	—	252	—
Net interest expense and other financing charges	124	—	250	—

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014[i] (12 weeks)	2013[ii] (12 weeks)	2014[i] (24 weeks)	2013[ii] (24 weeks)
Net operating income[2]	$ 119	$ —	$ 234	$ —
Funds from operations[2]	34	—	121	—
Adjusted funds from operations[2]	69	—	138	—
Adjusted funds from operations per unit diluted[2] ($)	0.18	—	0.37	—
Adjusted funds from operations payout ratio[2]	88.3%	—%	88.1%	—%

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 37 of this report.

(ii) Choice Properties was created in the third quarter of 2013 and as a result there are no comparative figures.

- Revenue for the second quarter of 2014 was $170 million, of which $152 million was generated from tenants within the Retail segment. Revenue consists of base rent and operating cost and property tax recoveries.
- Operating income for the second quarter of 2014 was $122 million. Operating income included $6 million of general and administrative costs in the second quarter. Adjusted operating income[2] for the second quarter of 2014 for the second quarter of 2014 was $128 million.
- Net operating income[2] for the second quarter of 2014 was $119 million, which consisted of cash rental revenue less property operating costs.
- Funds from operations[2] and adjusted funds from operations[2] for the second quarter of 2014 were $34 million and $69 million, respectively.
- Results of Choice Properties operations for the second 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 second quarter of 2014, Choice Properties acquired 20 investment properties from the Company for an aggregate purchase price of approximately $200 million, which was settled through the issuance of 11,259,208 Class B Limited Partnership units and $81 million in cash.
- Transferor Notes of $1.5 billion held by Loblaw were replaced with notes containing the same principal amounts, interest rates and maturities. Loblaw subsequently sold the replacement notes to unrelated parties.

Acquisition of Shoppers Drug Mart Corporation

On March 28, 2014, 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 of Shoppers Drug Mart 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;
- $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). 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 was required to divest 14 Shoppers Drug Mart stores and four of the Company's franchise grocery stores, as well as nine pharmacy operations of the Company. This was subsequently revised to 16 Shoppers Drug Mart stores and two of the Company's franchise grocery stores. The planned divestitures for the nine in-store pharmacies remain unchanged. The divestitures are expected to be completed in the third quarter of 2014, subject to approval by the Competition Bureau, and are not expected to have a material impact on the operations of the Company or the planned synergies.

On July 21, 2014, subsequent to the end of the second quarter, the Competition Bureau approved the sale of the two franchise grocery stores, two of the Shoppers Drug Mart stores and approved the licensing of the nine in-store pharmacies to unrelated parties.

Based on a preliminary assessment, the Company recognized 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	$	539	
Goodwill		2,259	
Prescription files		5,040	11 years
Brands		3,340	indefinite
Optimum loyalty program		490	18 years
Other		605	5 to 10 years
Total Intangible Assets		9,475	
Total Net Assets Acquired	$	12,273	

The Company has one year to finalize the fair value of net tangible assets, goodwill and intangible assets, however, the Company does not expect significant changes from the amounts presented above.

In the second quarter of 2014, the Company incurred costs related to the acquisition of $52 million, which were recorded in selling, general and administrative expenses.

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 MTNs of $500 million, along with accrued interest. The Company has also provided guarantees to various Canadian banks in support of the financing obtained by Shoppers Drug Mart's licensees ("Associates"). An Associate is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using Shoppers Drug Mart's trademarks.

Declaration of Dividends

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

Outlook[1]

The Company continues to successfully execute on its strategy against the backdrop of an extremely competitive supermarket environment and the deflationary pressure of regulatory drug reform. In its supermarket business, the Company will continue to focus on investing in the customer proposition to drive sales growth while surfacing efficiencies in its business to offset these investments. The acquisition of Shoppers Drug Mart provides the Company with increased scale and improved competitive positioning with the Canadian consumer, and also creates opportunities to realize significant synergies - particularly in cost of goods sold and expense in areas such as goods not for resale.

The Company expects the following in 2014:

- the supermarket environment to be competitive but stable;
- deflationary pressures from the impact of drug reform to moderate, with greater visibility for the balance of the year;
- its business divisions to achieve financial and operational performance, on an adjusted basis and excluding synergies, in line with 2013 performance trends; and
- to achieve $100 million in synergies in the first twelve months following the transaction. For 2014, synergies are projected to ramp up through the third and fourth quarter.

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The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the Company's second quarter 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 second 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[(2)] to rolling year adjusted EBITDA[(2)]", which is defined as adjusted debt[(2)] divided by cumulative adjusted EBITDA[(2)] for the latest four quarters; "rolling year return on average net assets[(2)]", which is defined as cumulative operating income for the latest four quarters divided by average net assets[(2)]; 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. Beginning in the second quarter of 2014, the Company has introduced two new financial measures: "Retail segment adjusted gross profit[(2)]" and "Retail segment adjusted gross margin[(2)]". 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 the Retail segment 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 operating performance. The exclusion of certain items does not imply that they are non-recurring.

The information in this MD&A is current to July 23, 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 36 and the Consolidated Results of Operations section on page 17 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 34 of this MD&A, the Enterprise Risks and Risk Management section on page 28 of the Company's 2013 Annual Report and the Company's Updated and Restated Annual Information Form (for the year ended December 31, 2013; updated June 2, 2014). 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 and drug safety;
- 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, the Shoppers Drug Mart 2013 annual MD&A filed by Shoppers Drug Mart on February 20, 2014 and the Company's Updated and Restated Annual Information Form (for the year ended December 31, 2013; updated June 2, 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. With the completion of the acquisition of Shoppers Drug Mart, the Company's second quarter results include the full quarter consolidation of Shoppers Drug Mart and the associated acquisition related accounting adjustments. Certain key financial performance indicators are set out below:

As at or for the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)		2014 (12 weeks)		2013[4] (12 weeks)
Consolidated:				
Revenue growth		37.1 %		2.0%
EBITDA[2]	$	(72)	$	512
Adjusted EBITDA[2]		799		518
Adjusted EBITDA margin[2]		7.8 %		6.9%
Operating (loss) income	$	(456)	$	321
Adjusted operating income[2]		540		327
Adjusted operating margin[2]		5.2 %		4.3%
Net (loss) earnings	$	(456)	$	177
Adjusted net earnings[2]		301		181
Basic net (loss) earnings per common share ($)		(1.13)		0.63
Adjusted basic net earnings per common share[2] ($)		0.75		0.64
Cash and cash equivalents, short term investments and security deposits		1,323		1,842
Cash flows from operating activities		959		572
Adjusted debt[2] to rolling year adjusted EBITDA[2]		4.4x		2.1x
Free cash flow[2]	$	801	$	392
Rolling year return on average net assets[2]		2.4 %		10.8%
Rolling year return on average shareholders' equity		(0.7)%		11.2%
Retail Segment:				
Same-store sales[3] growth[i]		1.8 %		1.1%
Gross profit	$	1,840	$	1,642
Adjusted gross profit %[2]		26.3 %		22.3%
Adjusted operating margin[2]		4.9 %		4.1%
Adjusted EBITDA margin[2]		7.4 %		6.6%
Financial Services Segment[ii]:				
Earnings before income taxes	$	26	$	18
Annualized yield on average quarterly gross credit card receivables		13.8 %		13.5%
Annualized credit loss rate on average quarterly gross credit card receivables		4.7 %		4.3%
Choice Properties Segment[iii]:				
Net operating income[2]	$	119	$	—
Funds from operations[2]		34		—
Adjusted funds from operations[2]		69		—
Adjusted funds from operations per unit diluted[2] ($)		0.18		—
Adjusted funds from operations payout ratio[2]		88.3 %		—%

(i) Same-store sales[3] growth excludes the results of Shoppers Drug Mart. For Shoppers Drug Mart results, including same-stores sales[3] growth, see Addendum A on page 24 of the Company's Second Quarter News Release.

(ii) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 37 of this report.

(iii) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 37 of this report.

Significant Items

Acquisition of Shoppers Drug Mart Corporation On March 28, 2014, 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 brings 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 the competitiveness of both companies in an evolving retail landscape, creating new growth opportunities for shareholders. It will provide 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.

In addition to its traditional corporate in-store pharmacy model (and licensee model in Québec), the Company now operates, through its subsidiary, Shoppers Drug Mart, an Associate-owned drug store model. The Associate-owned model combines the principles of a franchise arrangement, through the licensing of drug stores to individual Associates, with the benefits of a corporate infrastructure. An Associate is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using the Company's trademarks. Under the licensing arrangement with Associates, Shoppers Drug Mart provides the capital and financial support to enable Associates to operate *Shoppers Drug Mart*, Pharmaprix, Shoppers Simply Pharmacy and Pharmaprix Simplement Santé stores without any initial investment, except in the Province of Québec where an initial investment is required.

As a result of the acquisition of Shoppers Drug Mart, the Company benefits from conveniently located Shoppers Drug Mart/Pharmaprix drug stores and a number of value-added services developed by Shoppers Drug Mart for its patients and customers, including the *HealthWatch/PharmExpert* program, which provides Associates with tools to assist in patient counseling on medications, disease management and health and wellness, and the Shoppers Optimum/Pharmaprix Optimum program, one of the largest retail loyalty card programs in Canada. In most of its stores, Shoppers Drug Mart also provides additional service to its customers by offering free home delivery on all orders that include the purchase of prescription drugs or over-the-counter (OTC) medications. Shoppers Drug Mart also offers on-line prescription refills through a mobile app and via its website, www.shoppersdrugmart.ca.

Loblaw expects to achieve annualized synergies of $300 million in the third full year following the close of the transaction (net of related costs). 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 was required to divest 14 Shoppers Drug Mart stores and four of the Company's franchise grocery stores, as well as nine pharmacy operations of the Company. This was subsequently revised to 16 Shoppers Drug Mart stores and two of the Company's franchise grocery stores. The planned divestitures for the nine in-store pharmacies remain unchanged. The divestitures are expected to be completed in the third quarter of 2014, subject to approval by the Competition Bureau, and are not expected to have a material impact on the operations of the Company or the planned synergies.

On July 21, 2014, subsequent to the end of the second quarter, the Competition Bureau approved the sale of the two franchise grocery stores, two of the Shoppers Drug Mart stores and approved the licensing of the nine in-store pharmacies to unrelated parties.

As a result of the significant increase in debt due to the acquisition of Shoppers Drug Mart, the Company has increased its focus on reducing debt on the balance sheet in the short to medium term. During the second quarter of 2014, the Company made $350 million of progress towards these debt reduction efforts.

Inventory Measurement and Information Technology and Other Systems Implementations In 2013, the Company established a stable foundation for the roll-out of its new IT systems, and during 2014, stores are being brought online at an accelerated pace. By the end of the second quarter, the system had been implemented in a total of 18 distribution centres and 262 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.

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. The implementation of a perpetual inventory system, combined with visibility to integrated costing information provided by the new IT systems, has enabled the Company to estimate the cost of inventory using a more precise system-generated average cost.

By the end of the second quarter, the inventory in the converted stores represented approximately 64% of the Company's corporate grocery store inventory that was previously measured using the retail method. As a result, the Company now has sufficient knowledge to extrapolate the conversion results over its entire corporate grocery store inventory balances, and has recognized a $190 million charge to cost of merchandise inventories sold and a corresponding reduction in inventory, representing the estimate of the difference between the measurement of the cost of corporate grocery store inventory using a system generated weighted average cost compared to the retail inventory method and other conversion differences associated with the implementation of a perpetual inventory system. As the Company converts its remaining corporate grocery stores, the actual inventory adjustments could differ from the amount estimated and inventory balances will be adjusted accordingly.

Collective Agreements The Company continues to transition certain stores to more cost effective and efficient operating terms under collective agreements, the timing of which is uncertain. During the second quarter and year-to-date the Company incurred charges of $22 million and $27 million, respectively (2013 – $8 million and $12 million, respectively) in selling, general and administrative expenses related to the negotiation of these collective agreements.

Consolidated Quarterly Results of Operations

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4] (24 weeks)	$ Change	% Change
Revenue	$ 10,307	$ 7,520	$ 2,787	37.1 %	$ 17,599	$ 14,722	$ 2,877	19.5 %
Revenue excluding Shoppers Drug Mart	*7,698*	*7,520*	*178*	*2.4 %*	*14,990*	*14,722*	*268*	*1.8 %*
EBITDA[2]	(72)	512	(584)	(114.1)%	399	1,024	(625)	(61.0)%
Adjusted EBITDA[2]	$ 799	$ 518	$ 281	54.2 %	$ 1,285	$ 979	$ 306	31.3 %
Adjusted EBITDA margin[2]	7.8%	6.9%			7.3%	6.6%		
Adjusted EBITDA excluding Shoppers Drug Mart	*$ 518*	*$ 518*	*$ —*	*— %*	*$ 1,004*	*$ 979*	*$ 25*	*2.6 %*
Adjusted EBITDA margin excluding Shoppers Drug Mart	*6.7%*	*6.9%*			*6.7%*	*6.6%*		
Operating (loss) income	$ (456)	$ 321	$ (777)	(242.1)%	$ (180)	$ 650	$ (830)	(127.7)%
Adjusted operating income[2]	540	327	213	65.1 %	831	605	226	37.4 %
Adjusted operating margin[2]	5.2%	4.3%			4.7%	4.1%		
Adjusted operating income excluding Shoppers Drug Mart	*$ 321*	*$ 327*	*$ (6)*	*(1.8)%*	*$ 612*	*$ 605*	*$ 7*	*1.2 %*
Net interest expense and other financing charges	150	80	70	87.5 %	265	156	109	69.9 %
Net (loss) earnings	(456)	177	(633)	(357.6)%	(336)	363	(699)	(192.6)%
Adjusted net earnings[2]	301	181	120	66.3 %	457	330	127	38.5 %
Basic net (loss) earnings per common share ($)	(1.13)	0.63	(1.76)	(279.4)%	(0.98)	1.29	(2.27)	(176.0)%
Adjusted basic net earnings per common share[2] ($)	0.75	0.64	0.11	17.2 %	1.34	1.17	0.17	14.5 %

In the second quarter of 2014, with the acquisition of Shoppers Drug Mart, the Company's results include the full quarter consolidation of Shoppers Drug Mart. The Shoppers Drug Mart acquired assets have been recognized in the Company's financial results at their fair value, including:

- A fair value increase to Shoppers Drug Mart's inventory on the date of acquisition of $798 million, which will be recognized in cost of merchandise inventories sold over the remainder of 2014, with a resulting negative impact on gross profit. In the second quarter of 2014, $622 million of the fair value was recognized from inventory sold; and
- A $6 billion increase for the acquisition of definite life intangibles assets which will be amortized over their estimated useful lives. In the second quarter of 2014, $125 million of amortization was recognized in operating income.

In the second quarter of 2014, the Company has also recognized $52 million of costs associated with the acquisition of Shoppers Drug Mart in operating income.

With the upgrade of its IT infrastructure, the Company expects to complete the conversion of its corporate grocery 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 enables the Company to estimate the cost of inventory using a more precise system-generated average cost. By the second quarter of 2014, a sufficient number of corporate grocery stores had been converted to allow the Company to record the impact of this inventory measurement and other conversion differences associated with implementation of a perpetual inventory system. The impact was estimated to be a $190 million decrease to the value of the inventory, which was recognized in gross profit in the second quarter of 2014.

As a result of the repayment of $1.6 billion of the $3.5 billion term loan facility, the Company recorded a $14 million charge related to the accelerated amortization of deferred financing costs in net interest and other financing charges.

The above impacts, as well as certain other items, have been excluded from the Company's adjusted metrics in order to provide a better reflection of the Company's underlying operating performance. See Non-GAAP Financial Measures on page 37. The Company does not anticipate any significant additional Shoppers Drug Mart acquisition costs to be incurred. The Company expects the following non-cash adjustments to negatively impact its results in future periods as follows:

- annual amortization of approximately $550 million associated with the acquired intangibles over the next ten years and decreasing thereafter;
- remaining inventory fair value adjustment of $176 million over the remainder of 2014 as the acquired inventory is sold, the majority of which will be incurred in the third quarter of 2014;
- further adjustments related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system will be recorded, if necessary, as the Company converts its remaining corporate grocery stores; and
- the Company may incur further accelerated amortization of deferred financing costs should the Company make significant one-time repayments on the term loan facility.

The Company's results in the second quarter of 2014 also included a charge of $22 million (2013 – $8 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements.

Revenue Revenue increased by $2,787 million compared to the second quarter of 2013 and increased by $2,877 million for the first two quarters of the year compared to the same period in 2013, primarily due to the acquisition of Shoppers Drug Mart. Excluding the impact of the acquisition, consolidated revenue increased by 2.4% in the second quarter of 2013 and 1.8% year-to-date due to increases in the Company's Retail and Financial Services segments.

EBITDA(2) EBITDA(2) decreased by $584 million compared to the second quarter of 2013. EBITDA(2) was negatively impacted by the charge related to the inventory measurement and other conversion differences associated with implementation of a perpetual inventory system ($190 million), the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold ($622 million) as well as the costs related to the acquisition of Shoppers Drug Mart ($52 million). Adjusted EBITDA(2) increased by $281 million compared to the second quarter of 2013, primarily driven by the acquisition of Shoppers Drug Mart. Adjusted EBITDA margin(2) was 7.8% for the second quarter of 2014 compared to 6.9% in the same quarter in 2013. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted EBITDA(2) was flat compared to the second quarter of 2013, driven by a decrease in adjusted EBITDA(2) in the Company's Retail segment, which included a charge of $22 million (2013 – $8 million) related to the transition of certain stores to more cost effective and efficient operating terms under collective agreements, partially offset by an increase in adjusted EBITDA(2) in the Financial Services segment. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted EBITDA margin(2) was 6.7% compared to 6.9% in the same quarter in 2013.

Year-to-date EBITDA(2) decreased by $625 million compared to 2013 and was negatively impacted by a charge related to the inventory measurement and other conversion differences associated with implementation of a perpetual inventory system ($190 million), the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold ($622 million), the costs related to the acquisition of Shoppers Drug Mart ($60 million) and the gain related to defined benefit plan amendments recorded in the first quarter of 2013 ($51 million). Year-to-date adjusted EBITDA(2) increased by $306 million compared to 2013, primarily driven by an increase in the Retail segment's adjusted EBITDA(2) and included $281 million of adjusted EBITDA(2) related to the Shoppers Drug Mart acquisition. Adjusted EBITDA margin(2) was 7.3% year-to-date compared to 6.6% in the same period in 2013. Excluding the impact of the acquisition, year-to-date adjusted EBITDA(2) increased by $25 million, or 2.6%, compared to 2013, primarily driven by an increase in adjusted EBITDA(2) in the Financial Services segment offset by a decrease in the Retail segment, which included a charge of $27 million (2013 – $12 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements. Excluding the impact of the acquisition, year-to-date adjusted EBITDA margin(2) was 6.7% compared to 6.6% in 2013.

Operating Income Operating income decreased by $777 million compared to the second quarter of 2013. Operating income was negatively impacted by the factors described in EBITDA(2) above and the amortization of intangible assets of $125 million related to the acquisition of Shoppers Drug Mart. Adjusted operating income(2) increased by $213 million compared to the second quarter of 2013, primarily driven by the acquisition of Shoppers Drug Mart. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted operating income(2) decreased by $6 million, including a charge of $22 million (2013 – $8 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements and an incremental increase in depreciation and amortization of $6 million.

Year-to-date operating income decreased by $830 million compared to 2013. The operating income was negatively impacted by the adjustments described in year-to-date EBITDA(2) above and the amortization of intangible assets recorded on the acquisition of Shoppers Drug Mart. Year-to-date adjusted operating income(2) increased by $226 million compared to 2013, primarily driven by the acquisition of Shoppers Drug Mart. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted operating income(2) increased by $7 million, including a charge of $27 million (2013 – $12 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements and an incremental increase in depreciation and amortization of $18 million.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges increased by $70 million compared to the second quarter of 2013 and included a $14 million charge related to the accelerated amortization of deferred financing costs due to the repayment of $1.6 billion of the $3.5 billion term loan facility and an unfavourable $8 million fair value adjustment related to the Trust Unit Liability for the change in the fair value of Choice Properties Real Estate Investment Trust's ("Choice Properties") Trust Units ("Units") held by unitholders other than the Company. Excluding these impacts, net interest expense and other financing charges increased by $48 million, driven by higher interest on long term debt, primarily as a result of debt incurred to finance the acquisition of Shoppers Drug Mart and Trust Unit distributions.

Year-to-date net interest expense and other financing charges increased by $109 million to $265 million compared to $156 million in 2013. The increase was primarily due to net interest of $15 million related to indebtedness incurred in the first quarter to finance the acquisition of Shoppers Drug Mart, an unfavourable $20 million fair value adjustment related to the Trust Unit Liability for the change in the fair value of Units held by unitholders other than the Company and an unfavourable $14 million charge related to the accelerated amortization of deferred financing costs due to the repayment of $1.6 billion of the $3.5 billion term loan facility. Excluding these impacts net interest expense and other financing charges increased by $60 million, driven primarily by higher interest on Medium Term Notes ("MTNs") and long term debt as a result of the Shoppers Drug Mart acquisition and distributions paid by Choice Properties on its Trust Units, partially offset by higher interest income on short term investments in the first quarter of 2014.

Income Taxes The income tax recovery was $150 million for the second quarter of 2014 compared to income tax expense of $64 million for the second quarter of 2013. The effective tax rate for the second quarter of 2014 was 24.8% compared to 26.6% for the second quarter of 2013. The decrease in the effective tax rate over the second quarter of 2013 was primarily due to an increase in non-deductible items, including the 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 26.9% (2013 – 26.7%).

Year-to-date income tax recovery was $109 million compared to income tax expense for the same period in 2013 of $131 million. The year-to-date effective income tax rate was 24.5% compared to 26.5%. The decrease in the effective tax rate was primarily due to a increase in non-deductible items, including the fair value adjustments on the Trust Unit Liability, partially offset by an increase in income tax recoveries related to prior year tax matters. After excluding the tax impact of items excluded from adjusted net earnings(2), the effective income tax rate on adjusted net earnings(2) was 25.7% (2013 – 26.5%).

In 2012, the Company received indication from the Canada Revenue Agency (the "CRA") that it intended to proceed with a reassessment related to the tax treatment of the Company's wholly owned foreign subsidiary Glenhuron Bank Limited ("Glenhuron"). Subsequent to the end of the second quarter, the Company received a communication from the CRA providing its position that certain income earned by Glenhuron in Barbados in respect of the 2000 to 2010 taxation years should be treated, and taxed, as income in Canada and that it intends to reassess the Company accordingly. The Company disagrees with the CRA's position. The Company has yet to be formally reassessed and continues to provide the CRA with information and documentation to support its position.

If the CRA proceeds with the proposed reassessment, the Company intends to vigorously defend its position and to pursue all of its objection and appeal rights to the appropriate judicial bodies. If the CRA were to prevail in all of these challenges, which the Company believes would be unlikely, the estimated total tax and interest based on the CRA's assertion of the required income inclusion would be approximately $440 million in respect of the 2000 to 2010 taxation years. No amount has been provided for a potential reassessment in the Company's financial statements.

Net (Loss) Earnings Net earnings decreased by $633 million compared to the second quarter of 2013, due to a net loss of $456 million, primarily driven by the decrease in operating income, the increase in net interest expense and other financing charges, partially offset by the change in income taxes as described above. Adjusted net earnings(2) increased by $120 million compared to the second quarter of 2013, primarily driven by higher adjusted operating income(2), mainly as a result of the acquisition of Shoppers Drug Mart, partially offset by higher net interest and other financing charges after excluding certain items described above and the increase in income tax expense on adjusted net earnings(2).

Year-to-date net earnings for the second quarter of 2014 decreased by $699 million compared to the same period in 2013, due to a net loss of $336 million, primarily driven by the decrease in year-to-date operating income described above, the increase in net interest expense and other financing charges and partially offset by the the income tax recovery. Year-to-date adjusted net earnings(2) increased by $127 million compared to the same period in 2013, primarily driven by the increase in adjusted operating income(2), mainly as a result of the acquisition of Shoppers Drug Mart, partially offset by the higher net interest and other financing charges after excluding certain items described above and the decrease of income tax expense on adjusted net earnings(2).

Basic Net (Loss) Earnings Per Common Share Basic net loss per common share was $1.13 in the second quarter of 2014 compared to basic net earnings per common share of $0.63 in the second quarter of 2013. Adjusted basic net earnings per common share(2) were $0.75 in the second quarter of 2014 compared to adjusted basic net earnings per common share of $0.64 in the second quarter of 2013, primarily due to the increase in adjusted net earnings as described above, partially offset by the dilutive effect of the 119.5 million common shares issued as part of the total consideration for the acquisition of Shoppers Drug Mart.

On a year-to-date basis, basic net loss per common share was $0.98 in 2014 compared to basic net earnings per common share of $1.29 in the same period in 2013. Year-to-date adjusted basic net earnings per common share(2) were $1.34 compared to $1.17 in 2013, primarily due to the increase in adjusted net earnings as described above, partially offset by the dilutive effect of the 119.5 million common shares issued as part of the total consideration for the acquisition of Shoppers Drug Mart.

Reportable Operating Segments

Retail Segment

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013(4) (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013(4) (24 weeks)	$ Change	% Change
Sales	$ 10,097	$ 7,372	$ 2,725	37.0 %	$ 17,192	$ 14,409	$ 2,783	19.3 %
Gross profit	1,840	1,642	198	12.1 %	3,443	3,238	205	6.3 %
Adjusted gross profit(2)	2,652	1,642	1,010	61.5 %	4,255	3,238	1,017	31.4 %
EBITDA(2)	(117)	482	(599)	(124.3)%	313	961	(648)	(67.4)%
Adjusted EBITDA(2)	748	488	260	53.3 %	1,187	916	271	29.6 %
Operating (loss) income	(496)	293	(789)	(269.3)%	(256)	592	(848)	(143.2)%
Adjusted operating income(2)	494	299	195	65.2 %	743	547	196	35.8 %

For the periods ended June 14, 2014 and June 15, 2013 (unaudited)	2014 (12 weeks)	2013(4) (12 weeks)	2014 (24 weeks)	2013(4) (24 weeks)
Same-store sales(3) growth(i)	1.8%	1.1%	1.3%	1.9%
Adjusted gross profit %(2)	26.3%	22.3%	24.7%	22.5%
Adjusted EBITDA margin(2)	7.4%	6.6%	6.9%	6.4%
Adjusted operating margin(2)	4.9%	4.1%	4.3%	3.8%

(i) Same-store sales(3) growth excludes the results of Shoppers Drug Mart.

The discussion of Retail operating results below focuses on Retail segment results excluding Shoppers Drug Mart. For a discussion of Shoppers Drug Mart results, please see Addendum A on page 24 of the Company's Second Quarter 2014 News Release.

Sales

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4] (24 weeks)	$ Change	% Change
Retail sales	$ 10,097	$ 7,372	$ 2,725	37.0%	$ 17,192	$ 14,409	$ 2,783	19.3%
Shoppers Drug Mart	2,609				2,609			
Excluding Shoppers Drug Mart	$ 7,488	$ 7,372	$ 116	1.6%	$ 14,583	$ 14,409	$ 174	1.2%

In the second quarter of 2014, the increase in Retail sales of $2,725 million, or 37.0%, over the same period in the prior year included $2,609 million of sales related to Shoppers Drug Mart. Excluding the impact of the acquisition of Shoppers Drug Mart, Retail sales increased by $116 million, or 1.6%, compared to the same period in the prior year, as a result of the following factors:

- Same-store sales[3] growth was 1.8% (2013 – 1.1%) and was positively impacted by approximately 0.1% due to the shift in the timing of Easter. Normalized for the shift, same-store sales[3] growth for the quarter was approximately 1.7%. Same-store sales[3] growth excluding gas bar for the quarter was 1.7% (2013 – 1.0%) and normalized for the effect of the shift in the timing of Easter, was approximately 1.6%;
- Sales growth in food was moderate;
- Sales in drugstore declined marginally;
- Sales growth in gas bar was moderate;
- Sales in general merchandise, excluding apparel, declined marginally;
- Sales growth in retail apparel was moderate, while wholesale apparel sales declined significantly;
- The Company's average quarterly internal food price index was in line with (2013 – lower than) the average quarterly national food price inflation of 2.5% (2013 – 1.5%) 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
- 22 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%.

During the second quarter of 2014, Shoppers Drug Mart opened two new drug stores and closed five smaller pharmacy format stores.

On a year-to-date basis, sales increased by $2,783 million, or 19.3%, compared to the same period in 2013 and included $2,609 million related to the Shoppers Drug Mart acquisition. Excluding Shoppers Drug Mart, year-to-date sales increased by $174 million, or 1.2%. Year-to-date same-store sales[3] growth excluding Shoppers Drug Mart was 1.3% (2013 – 1.9%) and excluding gas bar was 1.3% (2013 – 1.9%).

Gross Profit

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4] (24 weeks)	$ Change	% Change
Retail gross profit	$ 1,840	$ 1,642	$ 198	12.1%	$ 3,443	$ 3,238	$ 205	6.3%
Adjustments[2]	812	—			812	—		
Adjusted Retail gross profit[2]	$ 2,652	$ 1,642	$ 1,010	61.5%	$ 4,255	$ 3,238	$ 1,017	31.4%
Adjusted gross profit %[2]	26.3%	22.3%			24.7%	22.5%		
Shoppers Drug Mart	$ 999				$ 999			
Excluding Shoppers Drug Mart	$ 1,653	$ 1,642	$ 11	0.7%	$ 3,256	$ 3,238	$ 18	0.6%
Adjusted gross profit %[2]	22.1%	22.3%			22.3%	22.5%		

In the second quarter of 2014, gross profit increased by $198 million and included a $190 million charge related to inventory measurement and other conversion differences associated with implementation of a perpetual inventory system and the recognition of the fair value increment of $622 million on Shoppers Drug Mart inventory sold.

In the second quarter of 2014, adjusted gross profit[2] increased by $1,010 million and included $999 million of adjusted gross profit related to the Shoppers Drug Mart acquisition. Adjusted gross profit[2] percentage was 26.3% compared to 22.3% in the second quarter of 2013. Excluding the impact of acquisition of Shoppers Drug Mart, adjusted gross profit percentage[2] decreased by 20 basis points to 22.1%. The decrease in adjusted gross profit percentage[2] was primarily due to a decrease in retail margins and higher shrink due to investments in fresh assortment. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted gross profit[2] increased by $11 million, or 0.7% compared to the same period in 2013, driven by higher sales, partially offset by a decline in gross profit percentage.

Year-to-date gross profit increased by $205 million compared to the same period in 2013 and included a $190 million charge related to inventory measurement and other conversion differences associated with implementation of a perpetual inventory system and the recognition of the fair value increment of $622 million on Shoppers Drug Mart inventory sold.

Year-to-date, adjusted gross profit[2] increased by $1,017 million and included $999 million of adjusted gross profit related to the Shoppers Drug Mart acquisition. Adjusted gross profit[2] percentage was 24.7% compared to 22.5% in the same period of 2013. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted gross profit[2] increased by $18 million, Adjusted gross profit percentage[2] decreased by 20 basis points to 22.3%. The decrease in adjusted gross profit percentage[2] was primarily driven by higher shrink due to the investment in fresh assortment and higher fuel costs.

EBITDA[2]

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4] (24 weeks)	$ Change	% Change
Retail EBITDA[2]	$ (117)	$ 482	$ (599)	(124.3)%	$ 313	$ 961	$ (648)	(67.4)%
Adjustments[2]	865	6			874	(45)		
Adjusted Retail EBITDA[2]	$ 748	$ 488	$ 260	53.3 %	$ 1,187	$ 916	$ 271	29.6 %
Shoppers Drug Mart	281				281			
Excluding Shoppers Drug Mart	$ 467	$ 488	$ (21)	(4.3)%	$ 906	$ 916	$ (10)	(1.1)%

EBITDA[2] decreased by $599 million compared to the second quarter of 2013 and was negatively impacted by a charge related to inventory measurement and other conversion differences associated with implementation of a perpetual inventory system, recognition of the fair value increment on inventory sold recorded on the acquisition of Shoppers Drug Mart, and by costs related to the acquisition of Shoppers Drug Mart.

Adjusted EBITDA[2] increased by $260 million compared to the second quarter of 2013 and included $281 million of adjusted EBITDA[2] related to the Shoppers Drug Mart acquisition. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted EBITDA[2] decreased by $21 million and included a $14 million year-over-year increase in charges related to the transition of certain stores to more cost effective and efficient operating terms under collective agreements. The remaining decline was primarily driven by investments in the Company's franchise business, gains from the settlement of foreign exchange related financial derivative instruments recorded in the second quarter of 2013 and higher other operating costs, partially offset by supply chain and labour efficiencies, and higher gross profit. For the second quarter of 2014, adjusted EBITDA margin[2] was 7.4% compared to 6.6% in the same period in 2013, primarily driven by the inclusion of Shoppers Drug Mart. Excluding the impact of the acquisition, adjusted EBITDA margin[2] was 6.2% compared to 6.6% in the second quarter of 2013.

Year-to-date EBITDA[2] decreased by $648 million compared to 2013 and was negatively impacted by the recognition of the fair value increment on inventory sold recorded on the acquisition of Shoppers Drug Mart, a charge related to inventory measurement and other conversion differences associated with implementation of a perpetual inventory system, costs related to the acquisition of Shoppers Drug Mart and the gain related to defined benefit plan amendments recorded in the first quarter of 2013.

Year-to-date adjusted EBITDA[2] increased by $271 million compared to 2013 and included $281 million of adjusted EBITDA[2] related to the Shoppers Drug Mart acquisition. Excluding the impact of the acquisition, the year-to-date adjusted EBITDA[2] decreased by $10 million, including a $15 million year-over-year increase in charges related to the transition of certain stores to more cost effective and efficient operating terms under collective agreements. The remaining increase was primarily driven by supply chain and labour efficiencies and higher gross profit, partially offset by investments in the Company's franchise business, gains from the settlement of foreign exchange related financial derivative instruments recorded in the second quarter of 2013, costs related to certain of the Company's emerging businesses, higher foreign exchange losses and increased other operating costs. Year-to-date adjusted EBITDA margin[2] was 6.9% compared to 6.4% in the same period in 2013, primarily driven by the inclusion of Shoppers Drug Mart. Excluding the impact of the acquisition, adjusted EBITDA margin[2] was 6.2% compared to 6.4% in the second quarter of 2013.

Operating (Loss) Income

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013(4) (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013(4) (24 weeks)	$ Change	% Change
Retail operating (loss) income	$ (496)	$ 293	$ (789)	(269.3)%	$ (256)	$ 592	$ (848)	(143.2)%
Adjustments(2)	990	6			999	(45)		
Adjusted Retail operating income(2)	$ 494	$ 299	$ 195	65.2 %	$ 743	$ 547	$ 196	35.8 %
Shoppers Drug Mart	219				219			
Excluding Shoppers Drug Mart	$ 275	$ 299	$ (24)	(8.0)%	$ 524	$ 547	$ (23)	(4.2)%

Operating income decreased by $789 million compared to the second quarter of 2013 and was negatively impacted by the adjustments described above to EBITDA(2) and the amortization of intangible assets recorded on the acquisition of Shoppers Drug Mart.

Adjusted operating income(2) increased by $195 million compared to the second quarter of 2013, and included $219 million of adjusted operating income(2) related to the Shoppers Drug Mart acquisition. Excluding the impact of the acquisition, adjusted operating income(2) decreased by $24 million, driven by the decrease in adjusted EBITDA(2) described above and an increase in depreciation and amortization of $3 million.

Year-to-date operating income decreased by $848 million compared to 2013 and was negatively impacted by the adjustments described above to year-to-date EBITDA(2) and the amortization of intangible assets recorded on the acquisition of Shoppers Drug Mart.

Year-to-date adjusted operating income(2) increased by $196 million compared to 2013, and included $219 million of adjusted operating income(2) related to the Shoppers Drug Mart acquisition. Excluding the impact of the acquisition, adjusted operating income(2) decreased by $23 million, driven by the decrease in year-to-date adjusted EBITDA(2) described above and an increase in depreciation and amortization of $13 million.

Financial Services Segment

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014[(i)] (12 weeks)	2013 (12 weeks)	$ Change	% Change	2014[(i)] (24 weeks)	2013 (24 weeks)	$ Change	% Change
Revenue	$ 192	$ 148	$ 44	29.7%	$ 372	$ 313	$ 59	18.8%
Operating income	38	28	10	35.7%	74	58	16	27.6%
Earnings before income taxes	26	18	8	44.4%	49	37	12	32.4%

(millions of Canadian dollars except where otherwise indicated) (unaudited)	As at June 14, 2014	As at June 15, 2013	$ Change	% Change
Average quarterly net credit card receivables	$ 2,499	$ 2,253	$ 246	10.9%
Credit card receivables	2,561	2,279	282	12.4%
Allowance for credit card receivables	48	43	5	11.6%
Annualized yield on average quarterly gross credit card receivables	13.8%	13.5%		
Annualized credit loss rate on average quarterly gross credit card receivables	4.7%	4.3%		

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 37 of this report. This represents a change from the previous quarters whereby results were presented consistent with the Company's reporting calendar. The results for 2013 have not been restated.

Revenue Revenue for the second quarter of 2014 increased by 29.7% compared to the second quarter of 2013 and year-to-date revenue increased by 18.8% compared to 2013. These increases were primarily driven by higher interest income and interchange income as a result of growth in the credit card portfolio.

Operating Income and Earnings Before Income Taxes Operating income and earnings before income taxes increased by $10 million and $8 million respectively, compared to the second quarter of 2013 and on a year-to-date basis increased by $16 million and $12 million, respectively, compared to 2013. These increases were mainly attributable to higher revenue described above, partially offset by higher operating costs as a result of an increase in the active customer base, higher credit losses from increased credit card receivable balances and higher costs associated with Financial Services' loyalty program.

Credit Card Receivables As at June 14, 2014, credit card receivables were $2,561 million, an increase of $282 million compared to June 15, 2013. This increase was primarily driven by growth in the active customer base as a result of continued investment in customer acquisitions and marketing initiatives over the past two years. As at June 14, 2014, the allowance for credit card receivables was $48 million, an increase of $5 million compared to June 15, 2013, primarily due to the growth in the credit card portfolio.

Choice Properties Segment

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars)	2014[i] (12 weeks)	2013[ii] (12 weeks)	2014[i] (24 weeks)	2013[ii] (24 weeks)
Revenue	$ 170	$ —	$ 337	$ —
Operating income	122	—	240	—
Adjusted operating income[(2)]	128	—	252	—
Net interest expense and other financing charges	124	—	250	—

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014[i] (12 weeks)	2013[ii] (12 weeks)	2014[i] (24 weeks)	2013[ii] (24 weeks)
Net operating income[(2)]	$ 119	$ —	$ 234	$ —
Funds from operations[(2)]	34	—	121	—
Adjusted funds from operations[(2)]	69	—	138	—
Adjusted funds from operations per unit diluted[(2)] ($)	0.18	—	0.37	—
Adjusted funds from operations payout ratio[(2)]	88.3%	—%	88.1%	—%

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 37 of this report.

(ii) Choice Properties was created in the third quarter of 2013 and as a result there are no comparative figures.

Revenue Revenue for the second quarter of 2014 was $170 million, of which $152 million was generated from tenants within the Retail segment. Year-to-date, revenue was $337 million of which $302 million was received from the Retail segment. Revenue consists of base rent and operating cost and property tax recoveries.

Operating Income Operating income for the second quarter of 2014 was $122 million. Operating income included $6 million of general and administrative costs in the second quarter. Year-to-date, operating income was $240 million and included $11 million of general and administrative costs. Adjusted operating income[(2)] for the second quarter of 2014 was $128 million and year-to-date was $252 million.

Net Operating Income[(2)] Net operating income[(2)] for the second quarter and year-to-date of 2014 was $119 million and $234 million, respectively, 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 second quarter of 2014 were $34 million and $69 million, respectively. On a year-to-date basis, funds from operations[(2)] and adjusted funds from operations[(2)] for 2014 were $121 million and $138 million, respectively.

Results of Choice Properties operations for the second quarter of 2014 and year-to-date 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 second quarter of 2014, Choice Properties acquired 20 investment properties from the Company for an aggregate purchase price of approximately $200 million, which was settled through the issuance of 11,259,208 Class B Limited Partnership units and $81 million in cash. Year-to-date, Choice Properties also acquired an industrial property in Mississauga, Ontario, for approximately $16 million, funded by cash. This property is fully leased to a related party.

Transferor Notes of $1.5 billion held by Loblaw were replaced with notes containing the same principal amounts, interest rates and maturities. Loblaw subsequently sold the replacement notes to unrelated parties.

Acquisition of Shoppers Drug Mart Corporation

On March 28, 2014, 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 of Shoppers Drug Mart 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;
- $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 recognized 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	$	539	
Goodwill		2,259	
Prescription files		5,040	11 years
Brands		3,340	indefinite
Optimum loyalty program		490	18 years
Other		605	5 to 10 years
Total Intangible Assets		9,475	
Total Net Assets Acquired	$	12,273	

The Company has one year to finalize the fair value of net tangible assets, goodwill and intangible assets, however, the Company does not expect significant changes from the amounts presented above.

In the second quarter of 2014, the Company incurred costs related to the acquisition of $52 million, which were recorded in selling, general and administrative expenses. Year-to-date, the Company incurred costs related to the acquisition of $75 million, of which $60 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 MTNs of $500 million, along with accrued interest. The Company has also provided guarantees to various Canadian banks in support of the financing obtained by Shoppers Drug Mart's Associates.

Liquidity and Capital Resources

Cash Flows

Major Cash Flow Components

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013 (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013 (24 weeks)	$ Change	% Change
Cash flows from (used in):								
Operating activities	$ 959	$ 572	$ 387	67.7 %	$ 913	$ 543	$ 370	68.1 %
Investing activities	(5,286)	(178)	(5,108)	(2,869.7)%	(5,132)	(367)	(4,765)	(1,298.4)%
Financing activities	2,970	(310)	3,280	1,058.1 %	3,136	(487)	3,623	743.9 %

Cash Flows from Operating Activities Cash flows from operating activities were $959 million in the second quarter of 2014, an increase in operating cash flows of $387 million compared to the second quarter of 2013. On a year-to-date basis, cash flows from operating activities were $913 million compared to $543 million in the same period in 2013. The increases were primarily due to higher cash earnings, driven by the acquisition of Shoppers Drug Mart.

Cash Flows used in Investing Activities Cash flows used in investing activities were $5,286 million in the second quarter of 2014, compared to cash flows used in investing activities of $178 million in the second quarter of 2013. On a year-to-date basis, cash flows used in investing activities were $5,132 million compared to $367 million in the same period in 2013. The increase in cash flows used in investing activities was primarily due to cash used in the acquisition of Shoppers Drug Mart, partially offset by the reduction of security deposits in the second quarter of 2014, which were used to partially fund the acquisition.

Capital Investment and Store Activity

As at or for the periods ended June 14, 2014 and June 15, 2013 (unaudited)	2014 (24 weeks)	2013 (24 weeks)	% Change
Capital investment (millions of Canadian dollars)	$ 338	$ 309	9.4 %
Corporate square footage (in millions)	37.3	37.3	— %
Franchise square footage (in millions)	15.1	14.3	5.6 %
Associate-owned drug store square footage (in millions)	17.6	—	100.0 %
Retail square footage (in millions)	70.0	51.6	35.7 %
Number of corporate stores(i)	624	574	8.7 %
Number of franchise stores	511	483	5.8 %
Number of Associate-owned drug stores	1,306	—	100.0 %
Percentage of corporate real estate owned	72%	72%	
Percentage of franchise real estate owned	45%	45%	
Percentage of Associate-owned drug store real estate owned	2%	—%	
Average store size (square feet)			
Corporate	59,800	65,000	(8.0)%
Franchise	29,500	29,600	(0.3)%
Associate-owned drug store	13,500	—	100.0 %

(i) 2014 figure includes 68 Shoppers Drug Mart corporate stores.

Cash Flows from (used in) Financing Activities During the second quarter of 2014, cash flows from financing activities were $2,970 million compared to $310 million used in the second quarter of 2013. On a year-to-date basis, cash flows from financing activities were $3,136 million compared to $487 million used in the same period in 2013. The increase in cash flows from financing activities was primarily due to higher net issuances of long term debt and higher cash proceeds from the issuance of common shares, both primarily used to fund the acquisition of Shoppers Drug Mart. These cash inflows were partially offset by higher dividends, which include one quarter of Shoppers Drug Mart dividends that were declared prior to closing of the acquisition and paid during the second quarter of 2014.

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

- Drawings on the Term Loan Facility of $3,500 million and repayments of $1,600 million;
- The issuance of $1,500 million of replacement notes related to the Choice Properties Transferor Notes;
- The issuance of $450 million aggregate principal amount of senior unsecured debentures by Choice Properties;
- The repayment of the Company's $100 million, 6.0% MTN upon maturity;
- The repayment of the Company's $350 million, 4.85% MTN upon maturity; and
- The repayment of the outstanding $478 million balance of the Shoppers Drug Mart revolving bank credit facility.

Free Cash Flow(2)

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013 (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013 (24 weeks)	$ Change	% Change
Free cash flow(2)	$ 801	$ 392	$ 409	104.3%	$ 381	$ 50	$ 331	662.0%

For the second quarter of 2014, free cash flow(2) was $801 million compared to $392 million in the second quarter of 2013. On a year-to-date basis, free cash flow(2) was $381 million compared to $50 million in the same period in 2013. The increase in free cash flow(2) was primarily due to an increase in net earnings before non-cash items, reflecting the acquisition of Shoppers Drug Mart.

Defined Benefit Pension Plan Contributions During the first two quarters of 2014, the Company contributed $22 million (2013 – $63 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

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 MTNs issuances.

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

Cash and Cash Equivalents, Short Term Investments and Security Deposits The Company holds 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 June 14, 2014, the Company held $1,323 million of cash and cash equivalents, short term investments and security deposits, a decrease of $519 million from June 15, 2013. This decrease was largely driven approximately $1.0 billion used in the acquisition of Shoppers Drug Mart; the repayment of the outstanding $478 million balance of the Shoppers Drug Mart revolving bank credit facility; the repayment of $100 million and $350 million MTNs that matured during 2014; the repayment of a $200 million MTN that matured in 2013; and the repayment of United States dollar ("USD") $150 million of U.S. Private Placement ("USPP") notes in 2013, partially offset by the $660 million and $600 million of proceeds from Choice Properties' Initial Public Offering ("IPO") and debt offering received in the third quarter of 2013, respectively; and the $450 million of senior unsecured debentures issued by Choice Properties in the first quarter of 2014.

Acquisition of Shoppers Drug Mart In the second quarter of 2014, $3.5 billion was obtained by the Company 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 to fund a portion of the cost to acquire Shoppers Drug Mart. As described below, $1.6 billion of the unsecured term loan was repaid in the quarter.

Subsequent to the end of the second quarter, the Company reached an agreement to re-price the interest rate on the unsecured term loan facility obtained to finance the acquisition of Shoppers Drug Mart to reduce the rate from Bankers' Acceptance rate plus 1.75% to Bankers' Acceptance rate plus 1.45%. As at June 14, 2014, the balance of the term loan facility was $1.9 billion.

Choice Properties In the second quarter of 2014, Choice Properties Limited Partnership entered into a Master Trust Indenture agreement with Computershare Trust Company of Canada to create supplemental indentures in order to facilitate the replacement of all 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 $1.5 billion. Loblaw used these proceeds and existing cash to repay $1.6 billion of the $3.5 billion unsecured term loan drawn to fund a portion of the cost to acquire Shoppers Drug Mart.

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 3.50% per annum and $200 million principal amount of Series D senior unsecured debentures with a 10-year term and a coupon rate of 4.29% 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.

Committed Facilities Effective on the closing of the Shoppers Drug Mart acquisition, the Company's $800 million committed credit facility ("Credit Facility") was increased to $1.0 billion and the term extended to December 31, 2018. The Credit Facility contains certain financial covenants with which the Company was in compliance throughout the first half of the year and as at the end of the second quarter of 2014. As at the end of the second quarters of 2014 and 2013 and as at December 28, 2013, there were no amounts drawn under the Credit Facility.

Choice Properties' $500 million senior unsecured committed credit facility ("Choice Properties Credit Facility"), provided by a syndicate of lenders, also contains certain financial covenants with which Choice Properties was in compliance for the first half of the year and as at the end of the second quarter of 2014. As at June 14, 2014, Choice Properties had drawn $37 million on the Choice Properties Credit Facility. As at December 28, 2013, Choice Properties had not drawn on the Choice Properties Credit Facility.

Associate Guarantee Shoppers Drug Mart has arranged for its Associates to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at June 14, 2014, the Company's maximum obligation in respect of such guarantees was $560 million with an aggregate amount of $476 million in available lines of credit allocated to the Associates by the various banks. As at June 14, 2014, Associates had drawn an aggregate amount of $335 million against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's condensed consolidated balance sheets. As recourse in the event that any payments are made under the guarantees, Shoppers Drug Mart holds a first-ranking security interest on all assets of Associate-owned stores, subject to certain prior-ranking statutory claims.

Adjusted Debt(2) The Company's adjusted debt(2) increased significantly as a result of the Shoppers Drug Mart acquisition. At closing, adjusted debt(2) increased to approximately $11.1 billion, after taking into account the $3.5 billion unsecured term loan facility obtained as part of the financing for the acquisition of Shoppers Drug Mart and the assumption of Shoppers Drug Mart's outstanding debt.

Since the acquisition, the Company has made progress towards its debt reduction targets by repaying a $350 million MTN at maturity, resulting in an adjusted debt(2) balance of $10.7 billion as at June 14, 2014.

During the second quarter of 2014, the Company also sold $1.5 billion of Transferor Notes to third parties and used the proceeds to repay a portion of its term loan. The overall consolidated impact was neutral to adjusted debt(2).

Adjusted Debt(2) to rolling year Adjusted EBITDA(2)

(unaudited)	As at June 14, 2014	As at June 15, 2013
Adjusted debt(2) to rolling year Adjusted EBITDA(2)	4.4x	2.1x

The Company monitors its Adjusted Debt(2) to rolling year Adjusted EBITDA(2) ratio as a measure to ensure it is operating under an efficient capital structure. The ratio increased during the second quarter of 2014 due to the Company fully drawing upon its $3.5 billion term loan to partially fund the cash portion of the purchase price for Shoppers Drug Mart as well as the assumption of Shoppers Drug Mart outstanding debt. The Company will continue to target leverage ratios consistent with those of investment grade ratings.

The following are excluded from Adjusted Debt(2):

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.

As at June 14, 2014, the Company has arranged letters of credit on behalf of PC Bank, representing 9% (June 15, 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 (June 15, 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 as at June 14, 2014 and throughout the first half of 2014.

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 June 14, 2014, the independent funding trusts had drawn $476 million (June 15, 2013 – $461 million; December 28, 2013 – $475 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

In the second quarter of 2014, the Company renewed the revolving committed credit facility and extended the maturity date to May 6, 2017, with terms and conditions remaining substantially the same.

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 June 14, 2014, the Company had provided a letter of credit in the amount of $50 million (June 15, 2013 and December 28, 2013 – $48 million).

Trust Unit Liability As at June 14, 2014, the fair value of the Trust Unit Liability was $715 million (June 15, 2013 – nil; December 28, 2013 – $688 million). During the second quarter of 2014 and year-to-date, the Company recorded a fair value loss of $8 million and $20 million, respectively, in net interest expense and other financing charges related to Choice Properties' Units. Choice Properties issued 381,641 Units during the second quarter of 2014 (2013 – nil) and 722,363 Units year-to-date (2013 – nil), to eligible unitholders under its distribution reinvestment plan. The issuance resulted in a $4 million increase (2013 – nil) to the Trust Unit Liability and $7 million increase year-to-date (2013 – nil).

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 second quarter of 2014, the Company held an 82.6% ownership interest in Choice Properties.

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

(millions of Canadian dollars)	June 14, 2014 (12 weeks)	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
Balance, beginning of period	$ 443	$ 293	$ 430	$ 303
GICs issued	116	—	136	—
GICs matured	(31)	(20)	(38)	(30)
Balance, end of period	$ 528	$ 273	$ 528	$ 273

As at June 14, 2014, $33 million in GICs were recorded as long term debt due within one year (June 15, 2013 – $39 million; December 28, 2013 – $52 million).

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

Credit Ratings (Canadian Standards)	Dominion Bond Rating Service Credit Rating	Dominion Bond Rating Service Trend	Standard & Poor's Credit Rating	Standard & Poor's 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

During the second 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 26 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", consistent with the credit ratings of the Company.

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

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

Share Capital

(number of common shares) (unaudited)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
Issued and outstanding, beginning of period	282,311,573	281,680,157
Issued for settlement of stock options	1,709,068	1,576,197
Issued for Acquisition of Shoppers Drug Mart(i)	119,471,382	—
Issued to controlling shareholder(i)	10,515,247	—
Purchased for cancellation	(1,263,900)	—
Issued and outstanding, end of period	412,743,370	283,256,354
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	246,944	1,568
Shares held in trust, end of period	(820,379)	(1,101,932)
Issued and outstanding net of shares held in trust, end of period	411,922,991	282,154,422
Weighted average outstanding, net of shares held in trust	342,208,842	281,066,441

(i) See the Acquisition of Shoppers Drug Mart Corporation section on page 26 of this report.

Dividends The following table summarizes the Company's cash dividends declared for the second quarters and year-to-date of 2014 and 2013:

	June 14, 2014(i) (12 weeks)	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
Dividends declared per share ($):				
Common share	$ 0.245	$ 0.240	$ 0.485	$ 0.460
Second Preferred Share, Series A	$ 0.37	$ 0.37	$ 0.74	$ 0.74

(i) Dividends declared on common shares have a payment date of July 1, 2014. Dividends declared on Second Preferred Shares, Series A have a payment date of July 31, 2014.

Subsequent to the end of the second quarter of 2014, the Board of Directors declared a quarterly dividend of $0.245 per common share, payable October 1, 2014, and declared a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable October 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 CRA.

Normal Course Issuer Bid In the second quarter of 2014, the Company renewed its Normal Course Issuer Bid ("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.

In the second quarter of 2014, the Company purchased 1,263,900 common shares for cancellation under its NCIB for cash consideration of $59 million.

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. No further purchases have been made to date.

Financial Derivative Instruments

The following describes the financial derivative instruments that were terminated in 2013:

Cross Currency Swaps As at the end of the second 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.

During the second quarter of 2013, the Company settled a USD $150 million USPP cross currency swap, which matured on May 29, 2013 and realized a foreign exchange gain of $5 million, net of tax of $2 million, in operating income, which was previously deferred in accumulated other comprehensive income.

As at the end of the second quarter of 2013, Loblaw held cross currency swaps to exchange $148 million Canadian dollars for USD $150 million, for settlement of Loblaw's USPP notes included in long term debt. During the third quarter of 2013, the Company settled this USPP cross currency swap.

Interest Rate Swaps During the second quarter of 2013, the Company settled its notional $100 million interest rate swaps. In the second quarter of 2013 and year-to-date, the Company recognized a $3 million fair value gain related to these swaps in operating income. As at the end of the second quarter of 2013, the Company maintained a notional $50 million in interest rate swaps which paid a fixed-rate of interest of 8.25%. As at June 15, 2013, the fair value of these interest rate swaps of $2 million was recorded in trade payables and other liabilities. During the third quarter of 2013, the Company settled its remaining notional $50 million in 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, 2014 is a 53-week fiscal year. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. 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

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
(millions of Canadian dollars except where otherwise indicated) (unaudited)	2014 (12 weeks)	2013(ii) (12 weeks)	2014(ii) (12 weeks)	2013(ii) (12 weeks)	2013(ii) (12 weeks)	2012(i)(ii) (12 weeks)	2013(ii) (16 weeks)	2012(i)(ii) (16 weeks)
Revenue	$ 10,307	$ 7,520	$ 7,292	$ 7,202	$ 7,640	$ 7,465	$ 10,009	$ 9,827
Net (loss) earnings	$ (456)	$ 177	$ 120	$ 186	$ 114	$ 139	$ 150	$ 217
Net (loss) earnings per common share								
Basic ($)	$ (1.13)	$ 0.63	$ 0.43	$ 0.66	$ 0.41	$ 0.49	$ 0.53	$ 0.77
Diluted ($)	$ (1.13)	$ 0.62	$ 0.42	$ 0.65	$ 0.40	$ 0.46	$ 0.53	$ 0.75
Average national food price inflation (as measured by CPI)	2.5%	1.5%	1.2%	1.4%	0.9%	1.5%	0.9%	1.8 %
Retail same-store sales(3) growth (decline)	1.8%	1.1%	0.9%	2.8%	0.6%	0.0%	0.4%	(0.2)%

(i) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits".
(ii) Certain comparative figures have been amended due to accounting policy alignments associated with the acquisition of Shoppers Drug Mart. No information has been amended for 2012.

Over the past eight quarters, net retail square footage increased by 0.8 million square feet to 52.0 million square feet, excluding Shoppers Drug Mart.

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:

- Recognition of fair value increment on inventory sold acquired with Shoppers Drug Mart beginning in the second quarter of 2014;
- The amortization of intangible assets acquired with Shoppers Drug Mart beginning in the second quarter of 2014;
- Charge related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system incurred in the second quarter of 2014;
- Charge related to the accelerated amortization of deferred financing costs incurred in in the second quarter of 2014;
- Choice Properties start-up costs and IPO transaction costs incurred in the third quarter of 2013;
- Choice Properties general and administrative costs beginning in the third quarter of 2013;
- Costs related to the acquisition of Shoppers Drug Mart beginning in the third quarter of 2013;
- Early debt settlement costs incurred in the third quarter of 2013;
- The fair value adjustment of the Trust Unit Liability beginning in the third quarter of 2013;
- Gains related to defined benefit plan amendments incurred in the first quarter of 2013;
- Restructuring costs, including the costs associated with reducing head office and administrative positions incurred in the fourth quarters of 2012 and 2013;
- Transition of certain stores to more cost effective and efficient operating terms under collective agreements; 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 second 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, the second quarter of 2013 and the first quarter of 2014: Accounts Payable, Cash Management, Order Processing and Billing, Vendor Income, Costing, Inventory Management and Valuation, and Credit Management.

In accordance with the provisions of National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, Management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Shoppers Drug Mart. Loblaw acquired the assets of Shoppers Drug Mart and its subsidiaries on March 28, 2014.

Shoppers Drug Mart's contribution to the Company's consolidated financial statements for the quarter ended June 14, 2014 was approximately 25 percent of consolidated revenues and approximately 40 percent of consolidated adjusted operating income(2). Additionally, Shoppers Drug Mart's current assets and current liabilities were approximately 30 percent and 25 per cent of consolidated current assets and liabilities, respectively, and its long term assets and long term liabilities were approximately 20 percent and 5 percent of consolidated long term assets and long term liabilities, respectively.

The scope limitation is primarily based on the time required to assess Shoppers Drug Mart's disclosure controls and procedures (DC&P) and internal controls over financial reporting in a manner consistent with the Company's other operations. Further details related to the acquisition of Shoppers Drug Mart are disclosed on page 26 of this MD&A and in Note 3 in the Notes to the Company's unaudited interim period condensed consolidated financial statements for the second quarter of 2014.

Except for the preceding changes, there were no other changes in the Company's internal controls over financial reporting during the second 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 MD&A. An update to those risks and risk management strategies is included in the Updated and Restated Annual Information Form (for the year ended December 28, 2013; updated June 2, 2014) and is available online on www.sedar.com. Those risks and risk management strategies remain unchanged except as noted below.

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 CRA that it intended to proceed with a reassessment related to the tax treatment of the Company's wholly owned foreign subsidiary Glenhuron. Subsequent to the end of the second quarter, the Company received a communication from the CRA providing its position that certain income earned by Glenhuron in Barbados in respect of the 2000 to 2010 taxation years should be treated, and taxed, as income in Canada and that it intends to reassess the Company accordingly. The Company disagrees with the CRA's position. The Company has yet to be formally reassessed and continues to provide the CRA with information and documentation to support its position.

If the CRA proceeds with the proposed reassessment, the Company intends to vigorously defend its position and to pursue all of its objection and appeal rights to the appropriate judicial bodies. The Company could also be subject to further reassessments, on the same or similar basis as the proposed reassessment, for periods other than those which are the subject of the proposed reassessment. If the CRA were to ultimately prevail with respect to the proposed reassessment or if the CRA were to successfully pursue other reassessments, the outcome could have a negative material impact on the Company's financial condition.

Accounting Standards Implemented in 2014 and Changes to Significant Accounting Policies

The Company implemented the amendments to International Accounting Standards 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.

Vendor Allowances The timing of recognition of vendor allowances requires judgment to determine the point at which the Company has earned the allowance. In conjunction with the acquisition of Shoppers Drug Mart, management reviewed the timing of recognition of certain vendor allowances and has determined that it would be appropriate to align the practices of both companies. The Company has implemented the change retrospectively in the second quarter of 2014, as follows:

Consolidated Statements of Earnings and Comprehensive Income

Increase (Decrease) (millions of Canadian dollars except where otherwise indicated) (unaudited)	June 15, 2013 (12 weeks)	June 15, 2013 (24 weeks)	December 28, 2013 (52 weeks)
Cost of Merchandise Inventory Sold	$ 1	$ (19)	$ 5
Operating Income	$ (1)	$ 19	$ (5)
Earnings Before Income Taxes	$ (1)	$ 19	$ (5)
Income taxes	—	5	(2)
Net Earnings	$ (1)	$ 14	$ (3)
Total Comprehensive Income	$ (1)	$ 14	$ (3)
Net Earnings per Common Share ($)			
Basic	$ —	$ 0.05	$ (0.01)
Diluted	$ (0.01)	$ 0.05	$ (0.01)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars) (unaudited)	As at June 15, 2013	As at December 28, 2013	As at December 30, 2012
Accounts receivable	$ (3)	$ (39)	$ (32)
Inventories	1	13	11
Deferred Income Tax Asset	1	8	6
Shareholders' Equity	$ (1)	$ (18)	$ (15)

Future Accounting Standards

In May 2014, the International Accounting Standards Board issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Outlook[1]

The Company continues to successfully execute on its strategy against the backdrop of an extremely competitive supermarket environment and the deflationary pressure of regulatory drug reform. In its supermarket business, the Company will continue to focus on investing in the customer proposition to drive sales growth while surfacing efficiencies in its business to offset these investments. The acquisition of Shoppers Drug Mart provides the Company with increased scale and improved competitive positioning with the Canadian consumer, and also creates opportunities to realize significant synergies - particularly in cost of goods sold and expense in areas such as goods not for resale.

The Company expects the following in 2014:

- the supermarket environment to be competitive but stable;
- deflationary pressures from the impact of drug reform to moderate, with greater visibility for the balance of the year;
- its business divisions to achieve financial and operational performance, on an adjusted basis and excluding synergies, in line with 2013 performance trends; and
- to achieve $100 million in synergies in the first twelve months following the transaction. For 2014, synergies are projected to ramp up through the third and fourth quarter.

Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted operating income, adjusted operating 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. Beginning in the second quarter of 2014, the Company has introduced two new financial measures: Retail segment adjusted gross profit and Retail segment adjusted gross profit percentage. 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 EBITDA and adjusted EBITDA margin, adjusted operating income and adjusted operating margin, and adjusted net earnings and adjusted basic net earnings per common share were restated to conform with the current year's presentation. Beginning in the second quarter of 2014, the Company no longer excludes net interest expense incurred in connection with the financing related to the acquisition of Shoppers Drug Mart when analyzing consolidated underlying operating performance. These amounts were excluded from adjusted net earnings and adjusted basic net earnings per common share in periods prior to the closing of the acquisition of Shoppers Drug Mart, and will not be restated.

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.

Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage The following table reconciles Retail segment adjusted gross profit to gross profit measures reported in the condensed consolidated statements of earnings for the 12 and 24 weeks ended June 14, 2014 and June 15, 2013. The Company believes that Retail segment adjusted gross profit is useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

Retail segment adjusted gross profit percentage is calculated as adjusted Retail segment gross profit divided by Retail sales.

(millions of Canadian dollars) (unaudited)	2014 (12 weeks)	2013[(i)] (12 weeks)	2014 (24 weeks)	2013[(i)] (24 weeks)
Retail segment gross profit	$ 1,840	$ 1,642	$ 3,443	$ 3,238
Add impact of the following:				
Recognition of fair value increment on inventory sold	622	—	622	—
Charge related to inventory measurement and other conversion differences	190	—	190	—
Retail segment adjusted gross profit	$ 2,652	$ 1,642	$ 4,255	$ 3,238

(i) Certain 2013 figures have been amended to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 37 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 35.

Recognition of fair value increment on inventory sold In connection with the acquisition of Shoppers Drug Mart, acquired assets and liabilities were recorded on the Company's condensed consolidated balance sheets at their fair value. This resulted in a fair value adjustment to Shoppers Drug Mart inventory on the date of acquisition of $798 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. In the second quarter of 2014 and year-to-date, $622 million was recognized in gross profit and operating income.

Charge related to inventory measurement and other conversion differences for the Company's corporate grocery stores With the upgrade of its IT infrastructure, the Company expects to complete the conversion of its corporate grocery 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, enabled the Company to estimate the cost of inventory using a more precise system-generated average cost. By the second quarter of 2014, sufficient corporate grocery stores had been converted to enable the Company to record the impact of the inventory measurement and other conversion differences associated with implementation of a perpetual inventory system. The impact was estimated to be a $190 million decrease in the value of the inventory, which was recognized in gross profit and operating income in the second quarter of 2014 and year-to-date.

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Operating Income and Adjusted Operating Margin The following table reconciles earnings (loss) before income taxes, net interest expense and other financing charges and depreciation and amortization ("EBITDA"), adjusted EBITDA and adjusted operating income to operating income, which is reconciled to GAAP net earnings measures reported in the unaudited interim period condensed consolidated statements of earnings for the 12 and 24 weeks ended June 14, 2014 and June 15, 2013. The Company believes that adjusted EBITDA is 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. The Company also 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.

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

					2014 (12 weeks)					2013[i] (12 weeks)
(millions of Canadian dollars) (unaudited)	Retail	Financial Services[ii]	Choice Properties[ii]	Consolidation and Eliminations	Consolidated	Retail	Financial Services	Choice Properties	Consolidation and Eliminations	Consolidated
Net (loss) earnings					$ (456)					$ 177
Add (deduct) impact of the following:										
Net interest expense and other financing charges					150					80
Income taxes					(150)					64
Operating (loss) income	$ (496)	$ 38	$ 122	$ (120)	$ (456)	$ 293	$ 28	$ —	$ —	$ 321
Depreciation and amortization	379	2	—	3	384	189	2	—	—	191
EBITDA	$ (117)	$ 40	$ 122	$ (117)	$ (72)	$ 482	$ 30	$ —	$ —	$ 512
Operating (loss) income	$ (496)	$ 38	$ 122	$ (120)	$ (456)	$ 293	$ 28	$ —	$ —	$ 321
Add (deduct) impact of the following:										
Recognition of fair value increment on inventory sold	622	—	—	—	622	—	—	—	—	—
Charge related to inventory measurement and other conversion differences	190	—	—	—	190	—	—	—	—	—
Amortization of intangible assets acquired with Shoppers Drug Mart[iii]	125	—	—	—	125	—	—	—	—	—
Shoppers Drug Mart acquisition related costs	52	—	—	—	52	—	—	—	—	—
Choice Properties general and administrative costs	(1)	—	6	—	5	—	—	—	—	—
Fixed asset and other related impairments	2	—	—	—	2	6	—	—	—	6
Adjusted operating income	$ 494	$ 38	$ 128	$ (120)	$ 540	$ 299	$ 28	$ —	$ —	$ 327
Depreciation and amortization[iii]	254	2	—	3	259	189	2	—	—	191
Adjusted EBITDA	$ 748	$ 40	$ 128	$ (117)	$ 799	$ 488	$ 30	$ —	$ —	$ 518

(i) Certain 2013 figures have been amended to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 37 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 35.

(ii) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(iii) Depreciation and amortization for the calculation of adjusted EBITDA excludes $125 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars) (unaudited)	2014 (24 weeks) Retail	Financial Services(ii)	Choice Properties(ii)	Consolidation and Eliminations	Consolidated	2013(i) (24 weeks) Retail	Financial Services	Choice Properties	Consolidation and Eliminations	Consolidated
Net (loss) earnings					$ (336)					$ 363
Add (deduct) impact of the following:										
Net interest expense and other financing charges					265					156
Income taxes					(109)					131
Operating (loss) income	$ (256)	$ 74	$ 240	$ (238)	$ (180)	$ 592	$ 58	$ —	$ —	$ 650
Depreciation and amortization	569	4	—	6	579	369	5	—	—	374
EBITDA	$ 313	$ 78	$ 240	$ (232)	$ 399	$ 961	$ 63	$ —	$ —	$ 1,024
Operating (loss) income	(256)	74	240	(238)	(180)	592	58	—	—	650
Add (deduct) impact of the following:										
Recognition of fair value increment on inventory sold	622	—	—	—	622	—	—	—	—	—
Charge related to inventory measurement and other conversion differences	190	—	—	—	190	—	—	—	—	—
Amortization of intangible assets acquired with Shoppers Drug Mart(ii)	125	—	—	—	125	—	—	—	—	—
Defined benefit plan amendments	—	—	—	—	—	(51)	—	—	—	(51)
Shoppers Drug Mart acquisition related costs	60	—	—	—	60	—	—	—	—	—
Choice Properties general and administrative costs	(2)	—	11	—	9	—	—	—	—	—
Fixed asset and other related impairments	4	—	1	—	5	6	—	—	—	6
Adjusted operating income	$ 743	$ 74	$ 252	$ (238)	$ 831	$ 547	$ 58	$ —	$ —	$ 605
Depreciation and amortization(iii)	444	4	—	6	454	369	5	—	—	374
Adjusted EBITDA	$1,187	$ 78	$ 252	$ (232)	$ 1,285	$ 916	$ 63	$ —	$ —	$ 979

(i) Certain 2013 figures have been amended to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 37 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 35.

(ii) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(iii) Depreciation and amortization for the calculation of adjusted EBITDA excludes $125 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in the second quarter of 2014 included approximately $6 billion of definite life intangible assets, which will be amortized over their estimated useful lives. During the second quarter of 2014 and year-to-date, $125 million of amortization was recognized in operating income. Annual amortization associated with the acquired intangibles will be approximately $550 million over the next ten years.

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 acquisition related costs In connection with the agreement to acquire all of the outstanding common shares of Shoppers Drug Mart, in the second quarter of 2014 the Company recorded $52 million and year-to-date $60 million of acquisition costs in operating income. No significant additional costs related to the acquisition are anticipated.

Choice Properties general and administrative costs During the second quarter of 2014, the Company recorded $5 million and year-to-date $9 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 second quarter of 2014, the Company recorded a charge of $2 million (2013 – $6 million) and year-to-date $5 million (2013 – $6 million) 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 and 24 week periods ended June 14, 2014 and June 15, 2013:

(millions of Canadian dollars/Canadian dollars) (unaudited)	2014 (12 weeks)		2013[(i)] (12 weeks)		2014 (24 weeks)		2013[(i)] (24 weeks)	
Net (loss) earnings/basic net (loss) earnings per common share	$ (456)	$ (1.13)	$ 177	$ 0.63	$ (336)	$ (0.98)	$ 363	$ 1.29
Add (deduct) impact of the following:								
Recognition of fair value increment on inventory sold	457	1.14	—	—	457	1.33	—	—
Charge related to inventory measurement and other conversion differences	139	0.35	—	—	139	0.41	—	—
Amortization of intangible assets acquired with Shoppers Drug Mart	92	0.23	—	—	92	0.27	—	—
Defined benefit plan amendments	—	—	—	—	—	—	(37)	(0.13)
Shoppers Drug Mart acquisition related costs	45	0.11	—	—	64	0.19	—	—
Choice Properties general and administrative costs	4	0.01	—	—	7	0.02	—	—
Fixed asset and other related impairments	2	—	4	0.01	4	0.01	4	0.01
Fair value adjustment of Trust Unit Liability	8	0.02	—	—	20	0.06	—	—
Accelerated amortization of deferred financing costs	10	0.02	—	—	10	0.03	—	—
Adjusted net earnings/adjusted basic net earnings per common share	$ 301	$ 0.75	$ 181	$ 0.64	$ 457	$ 1.34	$ 330	$ 1.17

(i) Certain 2013 figures have been amended to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 37 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 35.

Shoppers Drug Mart acquisition related costs In addition to the acquisition 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 of Shoppers Drug Mart. These financing charges were recorded in net interest expense and other financing charges. As of the acquisition date, these costs are no longer excluded from adjusted net earnings and adjusted basic net earnings per common share as they are now part of ongoing business operations.

Fair value adjustment of Trust Unit Liability The Company is exposed to market price fluctuations as a result of the 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 second quarter of 2014, the Company recorded a loss of $8 million (2013 – nil) and year-to-date a loss of $20 million (2013 – nil) in net interest expense and other financing charges related to the fair value adjustment on the Trust Unit Liability.

Accelerated Amortization of Deferred Financing Costs In the second quarter of 2014, the Company recorded a $14 million charge related to the accelerated amortization of deferred financing costs due to the repayment of $1.6 billion of the $3.5 billion term loan facility on a pre-tax basis.

Free Cash Flow The following table reconciles free cash flow used in assessing the Company's financial condition to GAAP measures for the 12 and 24 weeks ended June 14, 2014 and June 15, 2013. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

(millions of Canadian dollars) (unaudited)	2014 (12 weeks)	2013 (12 weeks)	2014 (24 weeks)	2013 (24 weeks)
Cash flows from operating activities	$ 959	$ 572	$ 913	$ 543
Less: Change in credit card receivables	(162)	(104)	(23)	26
Fixed asset purchases	222	190	338	309
Interest paid	98	94	217	158
Free cash flow	$ 801	$ 392	$ 381	$ 50

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 June 14, 2014	As at June 15, 2013(i)	As at December 28, 2013(i)
Total assets	$ 34,025	$ 17,716	$ 20,741
Less: Cash and cash equivalents	1,179	771	2,260
Short term investments	47	847	290
Security deposits	97	224	1,701
Trade payables and other liabilities	4,576	3,482	3,797
Net assets	$ 28,126	$ 12,392	$ 12,693

(i) Certain 2013 figures have been amended to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 37 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 35.

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 changed its definition of adjusted debt in the second quarter of 2014 to include capital securities to better align with management's definition for deleveraging purposes.

(millions of Canadian dollars) (unaudited)	As at June 14, 2014	As at June 15, 2013	As at December 28, 2013
Bank indebtedness	$ 335	$ —	$ —
Short term debt	605	905	605
Long term debt due within one year	74	1,125	1,008
Long term debt	11,797	4,386	6,672
Trust Unit Liability	715	—	688
Capital securities	224	223	224
Certain other liabilities	34	39	39
Fair value of financial derivatives related to the above	—	(6)	—
Total debt	$ 13,784	$ 6,672	$ 9,236
Less:			
Independent Securitization Trusts in short term debt	605	905	605
Independent Securitization Trusts in long term debt	750	600	750
Independent Funding Trusts	476	461	475
Trust Unit Liability	715	—	688
Guaranteed Investment Certificates	528	273	430
Adjusted debt	$ 10,710	$ 4,433	$ 6,288

Adjusted debt to rolling year adjusted EBITDA is calculated as adjusted debt divided by cumulative adjusted EBITDA for the latest four quarters.

Choice Properties Net Operating Income The following table reconciles Choice Properties' net operating income to GAAP measures for the 12 and 24 week periods ended June 14, 2014 and June 15, 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(i) (12 weeks)	2013 (12 weeks)	2014(i) (24 weeks)	2013 (24 weeks)
Rental revenue	$ 170	$ —	$ 337	$ —
Reverse – Straight-line rental revenue	(8)	—	(17)	—
	162	—	320	—
Property Operating Costs	(43)	—	(86)	—
Net Operating Income	$ 119	$ —	$ 234	$ —

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

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 and 24 week periods ended June 14, 2014 and June 15, 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[(i)] (12 weeks)	2013 (12 weeks)	2014[(i)] (24 weeks)	2013 (24 weeks)
Net income	$ (2)	$ —	$ (10)	$ —
Fair value adjustments on Class B Limited Partnership units	(11)	—	37	—
Distributions on Class B Limited Partnership units	47	—	93	—
Amortization of tenant improvement allowances	—	—	1	—
Funds from Operations	$ 34	$ —	$ 121	$ —
Straight-line rental revenue	(8)	—	(17)	—
Amortization of finance charges	52	—	51	—
Unit-based compensation expense	1	—	1	—
Sustaining property and leasing capital expenditures, normalized[(ii)]	(10)	—	(18)	—
Adjusted Funds from Operations	$ 69	$ —	$ 138	$ —

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(ii) Seasonality impacts the timing of capital expenditures. The adjusted funds from operations calculation was adjusted for this factor to make the quarters more comparable.

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 379.7 million in the second quarter of 2014 and 375.8 million year-to-date.

Adjusted funds from operations payout ratio is calculated as Choice Properties' distribution per unit, which was $0.162501 in the second quarter of 2014 and $0.325002 year-to-date, 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.

July 23, 2014
Toronto, Canada

Financial Results

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Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	June 14, 2014 (12 weeks)	June 15, 2013[i] (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013[i] (24 weeks)
Revenue	$ 10,307	$ 7,520	$ 17,599	$ 14,722
Cost of Merchandise Inventories Sold	8,271	5,742	13,776	11,196
Selling, General and Administrative Expenses	2,492	1,457	4,003	2,876
Operating (Loss) Income	$ (456)	$ 321	$ (180)	$ 650
Net interest expense and other financing charges (note 4)	150	80	265	156
(Loss) Earnings Before Income Taxes	$ (606)	$ 241	$ (445)	$ 494
Income taxes (note 5)	(150)	64	(109)	131
Net (Loss) Earnings	$ (456)	$ 177	$ (336)	$ 363
Net (Loss) Earnings per Common Share ($) (note 6)				
Basic	$ (1.13)	$ 0.63	$ (0.98)	$ 1.29
Diluted	$ (1.13)	$ 0.62	$ (0.98)	$ 1.28
Weighted Average Common Shares Outstanding (note 6) (millions)				
Basic	403.0	281.3	342.2	281.1
Diluted	403.0	284.2	342.2	283.6

(i) Certain comparative figures have been amended. See note 2.

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

Condensed Consolidated Statements of Comprehensive Income

(millions of Canadian dollars) (unaudited)	June 14, 2014 (12 weeks)	June 15, 2013[(i)] (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013[(i)] (24 weeks)
Net (Loss) Earnings	$ (456)	$ 177	$ (336)	$ 363
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment	$ (3)	$ —	$ 1	$ —
Gain on derecognized derivative instrument (note 19)	—	(5)	—	(5)
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gain (loss) (note 17)	23	(5)	(46)	29
Other comprehensive income (loss)	$ 20	$ (10)	$ (45)	$ 24
Total Comprehensive (Loss) Income	$ (436)	$ 167	$ (381)	$ 387

(i) Certain comparative figures have been amended. See note 2.

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(i)	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity(i)
Balance at December 28, 2013	$ 1,642	$ 5,271	$ 87	$ —	$ 7,000
Net loss	$ —	$ (336)	$ —	$ —	$ (336)
Other comprehensive (loss) income	—	(46)	—	1	(45)
Total Comprehensive (Loss) Income	$ —	$ (382)	$ —	$ 1	$ (381)
Acquisition of Shoppers Drug Mart Corporation (note 3 and note 16)	6,119	—	—	—	6,119
Net effect of equity-based compensation (note 16)	78	—	5	—	83
Release of shares held in trust (note 18)	1	9	—	—	10
Common shares purchased for cancellation (note 16)	(24)	(35)	—	—	(59)
Dividends declared per common share – $0.485 (note 16)	—	(169)	—	—	(169)
	$ 6,174	$ (577)	$ 5	$ 1	$ 5,603
Balance at June 14, 2014	$ 7,816	$ 4,694	$ 92	$ 1	$ 12,603

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Retained Earnings(i)	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity(i)
Balance at December 29, 2012	$ 1,567	$ 4,777	$ 55	$ 5	$ 6,404
Net earnings	$ —	$ 363	$ —	$ —	$ 363
Other comprehensive income (loss)	—	29	—	(5)	24
Total Comprehensive Income (Loss)	$ —	$ 392	$ —	$ (5)	$ 387
Net effect of equity-based compensation (note 16)	66	—	8	—	74
Net effect of shares held in trust (note 16)	(6)	(40)	—	—	(46)
Dividends declared per common share – $0.46 (note 16)	—	(129)	—	—	(129)
	$ 60	$ 223	$ 8	$ (5)	$ 286
Balance at June 15, 2013	$ 1,627	$ 5,000	$ 63	$ —	$ 6,690

(i) Certain comparative figures have been amended. See note 2.

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

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)	As at June 14, 2014	As at June 15, 2013[(i)]	As at December 28, 2013[(i)]
Assets			
Current Assets			
Cash and cash equivalents (note 7)	$ 1,179	$ 771	$ 2,260
Short term investments (note 7)	47	847	290
Accounts receivable	1,021	476	579
Credit card receivables (note 8)	2,561	2,279	2,538
Inventories (note 9)	4,297	2,012	2,097
Income taxes recoverable	24	—	—
Prepaid expenses and other assets	226	149	75
Assets held for sale (note 10)	44	26	22
Total Current Assets	$ 9,399	$ 6,560	$ 7,861
Fixed Assets	10,774	8,937	9,105
Investment Properties	148	97	99
Intangible Assets	9,471	116	111
Goodwill	3,209	943	943
Deferred Income Tax Assets	298	261	261
Security Deposits (note 7)	97	224	1,701
Franchise Loans Receivable (note 19)	380	365	375
Other Assets (note 11)	249	213	285
Total Assets	$ 34,025	$ 17,716	$ 20,741
Liabilities			
Current Liabilities			
Bank indebtedness (note 12)	$ 335	$ —	$ —
Trade payables and other liabilities	4,576	3,482	3,797
Provisions	55	54	66
Income taxes payable	—	26	37
Short term debt (note 13)	605	905	605
Long term debt due within one year (note 14)	74	1,125	1,008
Associate interest	170	—	—
Total Current Liabilities	$ 5,815	$ 5,592	$ 5,513
Provisions	65	63	56
Long Term Debt (note 14)	11,797	4,386	6,672
Trust Unit Liability (note 19)	715	—	688
Deferred Income Tax Liabilities	2,043	19	34
Capital Securities	224	223	224
Other Liabilities (note 15)	763	743	554
Total Liabilities	$ 21,422	$ 11,026	$ 13,741
Shareholders' Equity			
Common Shares (note 16)	$ 7,816	$ 1,627	$ 1,642
Retained Earnings	4,694	5,000	5,271
Contributed Surplus (note 18)	92	63	87
Accumulated Other Comprehensive Income	1	—	—
Total Shareholders' Equity	$ 12,603	$ 6,690	$ 7,000
Total Liabilities and Shareholders' Equity	$ 34,025	$ 17,716	$ 20,741

(i) Certain comparative figures have been amended. See note 2.

Contingent liabilities (note 20). Subsequent Events (note 22).

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

Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars) (unaudited)	June 14, 2014 (12 weeks)	June 15, 2013(i) (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013(i) (24 weeks)
Operating Activities				
Net (loss) earnings	$ (456)	$ 177	$ (336)	$ 363
Income taxes (note 5)	(150)	64	(109)	131
Net interest expense and other financing charges (note 4)	150	80	265	156
Depreciation and amortization	384	191	579	374
Income taxes paid	(88)	(64)	(169)	(128)
Interest received	13	17	21	27
Settlement of equity forward contracts (note 19)	—	—	—	(16)
Settlement of cross currency swaps (note 19)	—	8	—	8
Change in credit card receivables (note 8)	(162)	(104)	(23)	26
Change in non-cash working capital	395	205	(196)	(344)
Fixed asset and other related impairments	2	6	5	6
Loss (gain) on disposal of assets	4	—	4	(1)
Recognition of fair value increment on inventory sold (note 9)	622	—	622	—
Charge related to inventory measurement and other conversion differences (note 9)	190	—	190	—
Gain on defined benefit plan amendments (note 17)	—	—	—	(51)
Other	55	(8)	60	(8)
Cash Flows from Operating Activities	959	572	913	543
Investing Activities				
Acquisition of Shoppers Drug Mart Corporation, net of cash acquired (note 3)	(6,619)	—	(6,619)	—
Fixed asset purchases	(222)	(190)	(338)	(309)
Change in short term investments (note 7)	(8)	3	243	(115)
Proceeds from fixed asset sales	2	9	12	11
Change in franchise investments and other receivables	(19)	17	(13)	25
Change in security deposits (note 7)	1,600	(17)	1,604	30
Intangible asset additions	(17)	—	(18)	(9)
Other	(3)	—	(3)	—
Cash Flows used in Investing Activities	(5,286)	(178)	(5,132)	(367)
Financing Activities				
Change in bank indebtedness	40	—	40	—
Change in Associate interest	(4)	—	(4)	—
Long Term Debt (note 14)				
Issued	5,165	—	5,634	10
Retired	(2,474)	(198)	(2,600)	(224)
Deferred debt financing costs	(29)	—	(29)	—
Interest paid	(98)	(94)	(217)	(158)
Dividends paid	(125)	(62)	(193)	(124)
Common Shares				
Issued (note 16)	554	44	564	55
Purchased and held in trust (note 16)	—	—	—	(46)
Purchased for cancellation	(59)	—	(59)	—
Cash Flows from (used in) Financing Activities	2,970	(310)	3,136	(487)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1)	(2)	2	3
Change in cash and cash equivalents	(1,358)	82	(1,081)	(308)
Cash and cash equivalents, beginning of period	2,537	689	2,260	1,079
Cash and Cash Equivalents, End of Period	$ 1,179	$ 771	$ 1,179	$ 771

(i) Certain comparative figures have been amended. See note 2.

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

For the periods ended June 14, 2014 and June 15, 2013 (millions of Canadian dollars except where otherwise indicated)

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's food and pharmacy leader, the nation's largest retailer and the majority unitholder of Choice Properties Real Estate Investment Trust ("Choice Properties"). Loblaw Companies Limited provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, and financial products and services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. Loblaw Companies Limited and its subsidiaries are together referred to in these unaudited interim period condensed consolidated financial statements as the "Company" or "Loblaw".

The Company's controlling shareholder is George Weston Limited ("Weston"), which owns approximately 46% of the Company's outstanding common shares.

The Company has three reportable operating segments: Retail, Financial Services and Choice Properties (see note 21).

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 and Shoppers Drug Mart Corporation's ("Shoppers Drug Mart'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 ("IFRS") and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company's and Shoppers Drug Mart Corporation'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 July 23, 2014.

Significant Accounting Policies

The following significant accounting policies reflect certain impacts to the presentation of the Company's unaudited interim period condensed consolidated financial statements, resulting from the acquisition of Shoppers Drug Mart. Upon closing of the acquisition, the significant accounting policies of Shoppers Drug Mart were aligned to those of the Company.

Associate Interest The Company consolidates the Shoppers Drug Mart Associate-owned drug stores ("Associates"). The consolidation of the Associates was based on the concept of control, which was determined to exist primarily through Shoppers Drug Mart's agreements that govern the relationship between Shoppers Drug Mart and the Associates ("Associate Agreements"). The Company does not have any direct or indirect shareholdings in the corporations that operate the Associates.

Associate interest reflects the investment the Associates have in the net assets of their businesses. Under the terms of the Associate Agreements, Shoppers Drug Mart agrees to purchase the assets that the Associates use in store operations, primarily at the carrying value to the Associate, when Associate Agreements are terminated by either party.

Bank Indebtedness Bank indebtedness is comprised of Associate-owned store bank lines of credit.

Vendor Allowances The timing of recognition of vendor allowances requires judgment to determine the point at which the Company has earned the allowance. In conjunction with the acquisition of Shoppers Drug Mart, management reviewed the timing of recognition of certain vendor allowances and has determined that it would be appropriate to align the practices of both companies. The Company has implemented the change retrospectively in the second quarter of 2014, as follows:

Consolidated Statements of Earnings and Comprehensive Income

Increase (Decrease) (millions of Canadian dollars except where otherwise indicated) (unaudited)	June 15, 2013 (12 weeks)	June 15, 2013 (24 weeks)	December 28, 2013 (52 weeks)
Cost of Merchandise Inventory Sold	$ 1	$ (19)	$ 5
Operating Income	$ (1)	$ 19	$ (5)
Earnings Before Income Taxes	$ (1)	$ 19	$ (5)
Income taxes	—	5	(2)
Net Earnings	$ (1)	$ 14	$ (3)
Total Comprehensive Income	$ (1)	$ 14	$ (3)
Net Earnings per Common Share ($)			
Basic	$ —	$ 0.05	$ (0.01)
Diluted	$ (0.01)	$ 0.05	$ (0.01)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars) (unaudited)	As at June 15, 2013	As at December 28, 2013	As at December 30, 2012
Accounts receivable	$ (3)	$ (39)	$ (32)
Inventories	1	13	11
Deferred Income Tax Asset	1	8	6
Shareholders' Equity	$ (1)	$ (18)	$ (15)

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.

Future Accounting Standards

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Note 3. Acquisition of Shoppers Drug Mart Corporation

On March 28, 2014, 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 of Shoppers Drug Mart was financed as follows:

- $3.5 billion term loan facility (see note 14);
- $1.6 billion of proceeds from the issuance of unsecured notes in the third quarter of 2013 (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.

Pursuant to a Consent Agreement reached with the Competition Bureau in the first quarter of 2014, the Company was required to divest 14 Shoppers Drug Mart stores and four of the Company's franchise grocery stores, as well as nine pharmacy operations of the Company. This was subsequently revised to 16 Shoppers Drug Mart stores and two of the Company's franchise grocery stores. The planned divestitures for the nine in-store pharmacies remain unchanged. The stores and pharmacy operations required to be divested have been included in assets held for sale as at June 14, 2014 (see note 10). Subsequent to the end of the second quarter, the Competition Bureau approved the sale of four of the stores and the nine in-store pharmacies (see note 22).

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		1,792
Investment properties		16
Intangible assets		9,475
Goodwill		2,259
Deferred income tax assets		68
Other assets		7
Bank indebtedness		(295)
Trade payables and other liabilities		(924)
Income taxes payable		(11)
Associate interest		(174)
Provisions		(19)
Long term debt		(1,127)
Deferred income tax liabilities		(2,261)
Other liabilities		(164)
Total Net Assets Acquired	$	12,273

The Company has one year to finalize the fair value of net tangible assets, goodwill and intangible assets, however, the Company does not expect significant changes from the amounts presented above.

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		605	5 to 10 years
Total Intangible Assets	$	9,475	

The Company has incurred costs totalling $75 million related to the acquisition of Shoppers Drug Mart. Of this amount, during the second quarter of 2014 and year-to-date, $52 million and $60 million, respectively, were recorded in selling, general and administrative expenses and nil and $15 million, respectively, were 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 accrued interest. The Company has also provided guarantees to various Canadian banks in support of the financing obtained by Shoppers Drug Mart's Associates.

Included in the condensed consolidated statement of earnings for the second quarter of 2014 are $2.6 billion in revenue and $145 million in net earnings related to Shoppers Drug Mart since the date of acquisition, excluding the impact of purchase price adjustments and acquisition costs.

On a year-to-date pro forma basis, the Company's total revenue would have amounted to approximately $20.1 billion and the Company's net loss would have amounted to approximately $306 million. 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)	June 14, 2014 (12 weeks)	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
Interest expense and other financing charges:				
Long term debt	$ 128	$ 67	$ 199	$ 133
Shoppers Drug Mart acquisition related costs (note 3)	—	—	18	—
Borrowings related to credit card receivables	9	8	18	17
Trust Unit distributions	7	—	18	—
Net interest on net defined benefit obligation (note 17)	3	5	5	10
Independent funding trusts	4	4	7	7
Dividends on capital securities	4	4	7	7
Fair value adjustment of Trust Unit Liability (note 19)	8	—	20	—
Capitalized interest	(1)	(1)	(1)	(1)
	$ 162	$ 87	$ 291	$ 173
Interest income:				
Accretion income	$ (7)	$ (5)	$ (13)	$ (10)
Derivative financial instruments	—	—	—	(3)
Short term interest income	(4)	(1)	(9)	(3)
Security deposits(i)	(1)	(1)	(4)	(1)
	$ (12)	$ (7)	$ (26)	$ (17)
Net interest expense and other financing charges	$ 150	$ 80	$ 265	$ 156

(i) Includes nominal interest income for the second quarter of 2014 (2013 – nil) and $3 million year-to-date (2013 – nil) related to $1.6 billion of proceeds from the issuance of senior unsecured notes previously held in escrow (see note 7), which were 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 second quarter of 2014 was a recovery of $150 million (2013 – expense of $64 million) and the effective income tax rate was 24.8% (2013 – 26.6%). The decrease in the effective income tax rates compared to the second quarter in 2013 was primarily due to an increase in non-deductible amounts (including fair value adjustments on the Trust Unit Liability). Year-to-date income tax recovery was $109 million (2013 – expense of $131 million) and the effective tax rate was 24.5% (2013 – 26.5%). The decrease in the effective income tax rate compared to the same period in 2013 was primarily due to an increase in non-deductible amounts (including fair value adjustments on the Trust Unit Liability), partially offset by an increase in prior year recoveries.

Note 6. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	June 14, 2014 (12 weeks)	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
Net (loss) earnings for basic and diluted earnings per share	$ (456)	$ 177	$ (336)	$ 363
Weighted average common shares outstanding (note 16) (in millions)	403.0	281.3	342.2	281.1
Dilutive effect of equity-based compensation (in millions)	—	2.2	—	1.8
Dilutive effect of certain other liabilities (in millions)	—	0.7	—	0.7
Diluted weighted average common shares outstanding (in millions)	403.0	284.2	342.2	283.6
Basic net (loss) earnings per common share ($)	$ (1.13)	$ 0.63	$ (0.98)	$ 1.29
Diluted net (loss) earnings per common share ($)	$ (1.13)	$ 0.62	$ (0.98)	$ 1.28

For the second quarter of 2014, 14,268,556 (2013 – 11,731,007) and year-to-date 14,534,427 (2013 – 11,759,964) potentially dilutive instruments were excluded from the computation of diluted net (loss) 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 June 14, 2014	As at June 15, 2013	As at December 28, 2013
Cash	$ 440	$ 243	$ 515
Cash equivalents:			
Bankers' acceptances	295	227	270
Government treasury bills	307	164	1,420
Bank term deposits	—	32	42
Corporate commercial paper	137	98	13
Government agencies securities	—	7	—
Total cash and cash equivalents	$ 1,179	$ 771	$ 2,260

Short Term Investments

(millions of Canadian dollars)	As at June 14, 2014	As at June 15, 2013	As at December 28, 2013
Bankers' acceptances	$ —	$ —	$ 162
Government treasury bills	13	208	98
Corporate commercial paper	2	336	—
Government agency securities	30	213	30
Other	2	90	—
Total short term investments	$ 47	$ 847	$ 290

Security Deposits

(millions of Canadian dollars)	As at June 14, 2014	As at June 15, 2013	As at December 28, 2013
Cash	$ 97	$ 92	$ 102
Government treasury bills(i)	—	104	1,599
Government agency securities	—	28	—
Total security deposits	$ 97	$ 224	$ 1,701

(i) As at December 28, 2013, Government treasury bills included $1.6 billion of proceeds from the issuance of senior unsecured notes that were held in escrow as part of the financing for the acquisition of Shoppers Drug Mart. In the second quarter of 2014, the Company completed the acquisition of Shoppers Drug Mart and the proceeds were released from escrow (see note 3).

As at June 14, 2014, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $137 million (June 15, 2013 – $134 million; December 28, 2013 – $136 million), of which $97 million (June 15, 2013 – $121 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 June 14, 2014	As at June 15, 2013	As at December 28, 2013
Gross credit card receivables	$ 2,609	$ 2,322	$ 2,585
Allowance for credit card receivables	(48)	(43)	(47)
Credit card receivables	$ 2,561	$ 2,279	$ 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 13). The Company has arranged letters of credit on behalf of PC Bank, representing 9% (June 15, 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 (June 15, 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 as at June 14, 2014 and throughout the first half of 2014.

Note 9. Inventories

With the upgrade of its information technology ("IT") infrastructure, the Company expects to complete the conversion of its corporate grocery 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, enabled the Company to estimate the cost of inventory using a more precise system-generated average cost. As a result, the Company has recognized a $190 million charge to cost of merchandise inventories sold and a corresponding reduction in inventory, representing the estimate of the difference between the measurement of the cost of corporate grocery store inventory using a system generated weighted average cost compared to the retail inventory method and other conversion differences associated with the implementation of a perpetual inventory system. As the Company converts its remaining corporate grocery stores, the actual inventory adjustments could differ from the amount estimated and inventory balances will be adjusted accordingly.

In connection with the acquisition of Shoppers Drug Mart, acquired assets and liabilities were recorded on the Company's condensed consolidated balance sheet at their fair value. This resulted in a fair value adjustment to Shoppers Drug Mart inventory on the date of acquisition of $798 million representing the difference between inventory cost and its fair value. This difference will be recognized in cost of merchandise inventory sold over the remainder of 2014, with a resulting negative impact to operating income. In the second quarter of 2014 and year-to-date, $622 million was recognized in cost of merchandise inventory sold.

For inventories recorded as at June 14, 2014, the Company recorded $18 million (June 15, 2013 – $13 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. There were no reversals of previously recorded write-downs of inventories during the quarters and years-to-date ended June 14, 2014 and June 15, 2013.

Note 10. Assets Held for Sale

As a condition of the regulatory clearance from the Competition Bureau for the acquisition of Shoppers Drug Mart, the Company is divesting 16 Shoppers Drug Mart stores and two of the Company's franchise grocery stores, as well as nine of the Company's pharmacy operations (see note 3). These assets totalling $37 million have been included in assets held for sale as at June 14, 2014, which includes inventory of $15 million and fixed assets of $22 million.

Note 11. Other Assets

(millions of Canadian dollars)	As at June 14, 2014	As at June 15, 2013	As at December 28, 2013
Fair value of cross currency swaps (note 19)	$ —	$ 44	$ —
Sundry investments and other receivables	146	136	136
Accrued benefit plan asset	76	5	106
Other	27	28	43
Other assets	$ 249	$ 213	$ 285

Note 12. Bank Indebtedness

The Associates borrow under their bank line of credit agreements guaranteed by the Company. The Company has entered into agreements with banks to guarantee a total of $560 million. At June 14, 2014, the Associates had utilized $335 million of the available lines of credit.

Note 13. Short Term Debt

The outstanding short term debt balance includes 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 14. Long Term Debt

Medium Term Notes In the second quarter of 2014, the Company's $350 million 4.85% MTN matured and was repaid. The Company has repaid $450 million in MTNs year-to-date. As at June 14, 2014, all of the Company's MTNs were recorded as long term debt. As at June 15, 2013 and December 28, 2013 MTNs of $650 million and $450 million, respectively, were recorded as long term debt due within one year.

In connection with the acquisition of Shoppers Drug Mart, the Company assumed MTNs of $225 million at 2.01% and $275 million at 2.36%, maturing in 2016 and 2018, respectively.

Term Loan Facility In the second quarter of 2014, as part of the financing for the acquisition of Shoppers Drug Mart, $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% maturing March 28, 2019. The Company incurred $41 million in financing costs related to the term loan facility, which were capitalized. Subsequent to the end of the second quarter, the Company reached an agreement to re-price the interest rate on the term loan facility (see note 22).

During the second quarter of 2014, the Company repaid $1.6 billion of the $3.5 billion drawn on this facility, using net proceeds of $1.5 billion from the sale of Choice Properties Transferor Notes and $100 million of existing cash. The accelerated amortization of financing costs related to the $1.6 billion repayment of the term loan facility for the second quarter of 2014 was $14 million.

As required by the term loan agreement, $478 million, which was the outstanding balance owing on Shoppers Drug Mart's revolving bank credit facility, was repaid and the facility was cancelled upon closing of the Shoppers Drug Mart acquisition.

Choice Properties In the second quarter of 2014, Choice Properties Limited Partnership entered into a Master Trust Indenture agreement with Computershare Trust Company of Canada to create supplemental indentures in order to facilitate the replacement of all 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 $1.5 billion. Loblaw used these proceeds and existing cash to repay $1.6 billion of the $3.5 billion unsecured term loan drawn to fund a portion of the cost to acquire Shoppers Drug Mart (see note 3).

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 3.50% per annum and $200 million principal amount of Series D senior unsecured debentures with a 10-year term and a coupon rate of 4.29% 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.

As at June 14, 2014, Choice Properties had drawn $37 million under its $500 million senior unsecured committed credit facility ("Choice Properties Credit Facility"). As at December 28, 2013, Choice Properties had not drawn on its credit facility. The Choice Properties Credit Facility was established in the third quarter of 2013 and matures July 5, 2018 and contains certain financial covenants. Choice Properties was in compliance with its financial covenants as at June 14, 2014 and throughout the first half of 2014.

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

(millions of Canadian dollars)	June 14, 2014 (12 weeks)	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
Balance, beginning of period	$ 443	$ 293	$ 430	$ 303
GICs issued	116	—	136	—
GICs matured	(31)	(20)	(38)	(30)
Balance, end of period	$ 528	$ 273	$ 528	$ 273

As at June 14, 2014, $33 million in GICs were recorded as long term debt due within one year (June 15, 2013 – $39 million; December 28, 2013 – $52 million).

Independent Funding Trusts As at June 14, 2014, the independent funding trusts had drawn $476 million (June 15, 2013 – $461 million; December 28, 2013 – $475 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

In the second quarter of 2014, the Company renewed the revolving committed credit facility and extended the maturity date to May 6, 2017, with terms and conditions remaining substantially the same.

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 June 14, 2014, the Company had provided a letter of credit in the amount of $50 million (June 15, 2013 and December 28, 2013 – $48 million).

Committed Credit Facility In the second quarter of 2014, effective on the closing of the Shoppers Drug Mart acquisition, the Company's committed credit facility ("Credit Facility") was increased from $800 million to $1.0 billion and expires on December 31, 2018. As at June 14, 2014, June 15, 2013 and December 28, 2013, the Company had not drawn on its Credit Facility. The Credit Facility contains certain financial covenants. The Company was in compliance with its financial covenants as at June 14, 2014 and throughout the first half of 2014.

Private Placement Notes During the second quarter of 2013, the Company repaid its United States dollar ("USD") $150 million U.S. private placement ("USPP") note that matured on May 29, 2013. As at June 15, 2013, the Company held a remaining USPP note for $153 million in Canadian dollars, which was recorded in long term debt due within one year and settled in the third quarter of 2013.

Note 15. Other Liabilities

(millions of Canadian dollars)	As at June 14, 2014	As at June 15, 2013	As at December 28, 2013
Net defined benefit plan obligation	$ 291	$ 419	$ 238
Other long term employee benefit obligation	115	112	107
Deferred vendor allowances	12	20	16
Equity-based compensation liability (note 18)	15	13	1
Fair value adjustment to acquired leases	111	—	—
Deferred lease obligation	70	26	25
Other	149	153	167
Other liabilities	$ 763	$ 743	$ 554

Note 16. 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:

(millions of Canadian dollars except where otherwise indicated)	June 14, 2014 (24 weeks) Number of Common Shares		June 14, 2014 (24 weeks) Common Share Capital	June 15, 2013 (24 weeks) Number of Common Shares		June 15, 2013 (24 weeks) 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	1,709,068		78	1,576,197		66
Issued for Acquisition of Shoppers Drug Mart (note 3)	119,471,382		5,619	—		—
Issued to controlling shareholder (note 3)	10,515,247		500	—		—
Purchased for cancellation	(1,263,900)		(24)	—		—
Issued and outstanding, end of period	412,743,370	$	7,821	283,256,354	$	1,633
Shares held in trust, beginning of period	(1,067,323)	$	(6)	—	$	—
Purchased for future settlement of RSUs and PSUs	—		—	(1,103,500)		(6)
Released for settlement of RSUs and PSUs (note 18)	246,944		1	1,568		—
Shares held in trust, end of period	(820,379)	$	(5)	(1,101,932)	$	(6)
Issued and outstanding net of shares held in trust, end of period	411,922,991	$	7,816	282,154,422	$	1,627
Weighted average outstanding, net of shares held in trust	342,208,842			281,066,441		

Dividends The following table summarizes the Company's cash dividends declared for the second quarters and year-to-date of 2014 and 2013:

	June 14, 2014 (12 weeks)[(i)]	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
Dividends declared per share ($):				
Common share	$ 0.245	$ 0.240	$ 0.485	$ 0.460
Second Preferred Share, Series A	$ 0.37	$ 0.37	$ 0.74	$ 0.74

(i) Dividends declared on common shares have a payment date of July 1, 2014. Dividends declared on Second Preferred Shares, Series A have a payment date of July 31, 2014.

For financial statement presentation purposes, Second Preferred Shares, Series A dividends of $4 million (2013 – $4 million) and $7 million (2013 – $7 million) for the 12 and 24 weeks ended June 14, 2014 and June 15, 2013, respectively, 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 second quarter of 2014, the Board declared a quarterly dividend of $0.245 per common share, payable October 1, 2014, and declared a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable October 31, 2014.

Normal Course Issuer Bid In the second quarter of 2014, the Company renewed its Normal Course Issuer Bid ("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.

In the second quarter of 2014, the Company purchased 1,263,900 common shares for cancellation under its NCIB for cash consideration of $59 million, resulting in a charge to retained earnings of $35 million and a $24 million reduction in common share capital.

The Company holds shares in trust for settlement of the Company's Restricted Share Unit ("RSU") and Performance Share Unit ("PSU") obligations (see note 18). 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.

Note 17. Post-Employment and Other Long Term Employee Benefits

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

(millions of Canadian dollars)	June 14, 2014 (12 weeks)	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
Post-employment benefit costs recognized in operating income[(i)]	$ 30	$ 34	$ 63	$ 19
Other long term employee benefits costs recognized in operating income	5	6	11	11
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 4)	3	5	5	10
Actuarial (gains) losses before income taxes recognized in other comprehensive (loss) income	(31)	7	62	(40)

(i) Included in the 2013 post-employment benefit cost 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 costs included 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 costs included the Company's long term disability plan. The actuarial gains recognized in the second quarter of 2014 were primarily driven by higher than expected returns on assets, while year-to-date losses were primarily driven by decreases in discount rates, partially offset by higher than expected returns on assets. The actuarial losses in the second quarter of 2013 were primarily due to lower than expected returns on assets, while year-to-date returns on assets were higher than expected, which resulted in actuarial gains recognized in other comprehensive (loss) income.

Note 18. 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 $25 million for the second quarter of 2014 (2013 – $6 million) and $32 million year-to-date (2013 – $14 million). The expense was recognized in selling, general and administrative expenses.

As a result of the acquisition of Shoppers Drug Mart, awards that were based on Shoppers Drug Mart shares were converted to awards based on shares of the Company. Accordingly, included in the Company's equity-based compensation expense for second quarter of 2014 above was $14 million related to these converted awards.

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

(millions of Canadian dollars)	As at June 14, 2014	As at June 15, 2013	As at December 28, 2013
Trade payables and other liabilities	$ 2	$ —	$ —
Other liabilities	15	13	1
Contributed surplus	92	63	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)	June 14, 2014 (12 weeks)	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
Outstanding options, beginning of period	10,100,593	13,565,786	10,995,995	12,538,928
Granted	1,654,540	9,867	1,654,540	1,480,134
Converted options	1,026,118	—	1,026,118	—
Exercised	(1,404,860)	(1,262,844)	(1,709,068)	(1,576,197)
Forfeited/cancelled	(158,579)	(216,402)	(249,838)	(297,716)
Expired	(234,746)	—	(734,681)	(48,742)
Outstanding options, end of period	10,983,066	12,096,407	10,983,066	12,096,407

During the second quarter of 2014, the Company granted stock options with a weighted average exercise price of $47.51 (2013 – $46.54) and $47.51 year-to-date (2013 – $40.60). The Company converted Shoppers Drug Mart stock options to Loblaw stock options in the second quarter of 2014 and year-to-date with a weighted average exercise price of $35.26. In addition, the Company issued common shares on the exercise of stock options with a weighted average share price during the second quarter of $47.14 (2013 – $47.68) and $46.60 year-to-date (2013 – $46.38), and received cash consideration of $54 million (2013 – $44 million) during the quarter and $64 million (2013 – $55 million) year-to-date.

The fair value of stock options granted during the second quarter of 2014 was $13 million (2013 – nominal) and $13 million (2013 – $11 million) year-to-date. The fair value of converted Shoppers Drug Mart stock options to Loblaw stock options was $13 million. The assumptions used to measure the fair value of options granted and converted during the second quarter of 2014 under the Black-Scholes valuation model at the grant date were as follows:

	June 14, 2014 (12 weeks)	June 15, 2013 (12 weeks)
Expected dividend yield	2.1%	2.1%
Expected share price volatility	19.0% – 23.2%	19.7% – 23.8%
Risk-free interest rate	1.1% – 1.9%	1.2% – 1.4%
Expected life of options	1.0 – 6.5 years	4.2 – 6.5 years

Estimated forfeiture rates are incorporated into the measurement of the stock option plan expense. The forfeiture rate applied as at June 14, 2014 was 12.0% (June 15, 2013 – 15.0%).

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

(Number of Awards)	June 14, 2014 (12 weeks)	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
RSUs, beginning of period	842,673	1,109,147	1,084,514	1,038,271
Granted	396,630	22,903	396,630	345,296
Settled	(9,192)	(2,972)	(244,042)	(242,122)
Forfeited	(10,186)	(13,641)	(17,177)	(26,008)
RSUs, end of period	1,219,925	1,115,437	1,219,925	1,115,437
RSUs settled (millions of Canadian dollars)	$ —	$ —	$ —	$ 10

The fair value of RSUs granted during the second quarter of 2014 was $18 million (2013 – $1 million) and $18 million year-to-date (2013 – $14 million).

In the second quarter of 2014, in addition to the awards granted under the Company's equity settled RSU plan, the Company converted Shoppers Drug Mart RSUs to 630,343 Loblaw RSUs. These converted RSUs vest on December 1, 2015 and will be settled in cash. The converted RSUs earn Loblaw dividends during the vesting period, which are reinvested as additional RSUs. As at June 14, 2014, the number of converted RSUs outstanding is 605,531 after forfeitures and reinvested dividends.

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

(Number of Awards)	June 14, 2014 (12 weeks)	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
PSUs, beginning of period	306,228	331,586	309,110	50,818
Granted	813,078	1,903	813,078	282,671
Settled	(1,693)	—	(2,902)	—
Forfeited/cancelled	(6,066)	(4,060)	(7,739)	(4,060)
PSUs, end of period	1,111,547	329,429	1,111,547	329,429

The fair value of PSUs granted during the second quarter of 2014 was $36 million (2013 – nominal) and $36 million year-to-date (2013 – $11 million).

The Company settled RSUs and PSUs totaling 10,885 during the second quarter of 2014 (2013 – 1,568) and 246,944 year-to-date (2013 – 1,568) through the trusts established for settlement of each of the RSU and PSU plans (see note 16). The settlements in the second quarter of 2014 and year-to-date resulted in a nominal and $9 million increase to retained earnings, respectively (2013 – nominal and nominal, respectively); and a nominal increase and $1 million increase in common share capital, respectively (2013 – nominal and nominal, respectively).

Note 19. 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 June 14, 2014 Total carrying amount	As at June 14, 2014 Total fair value	As at June 15, 2013 Total carrying amount	As at June 15, 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	$ 1,179	$ 1,179	$ 771	$ 771	$ 2,260	$ 2,260
Short term investments	47	47	847	847	290	290
Security Deposits	97	97	224	224	1,701	1,701
Loans and receivables (amortized cost):						
Accounts receivable	1,021	1,021	476	476	579	579
Credit card receivables	2,561	2,561	2,279	2,279	2,538	2,538
Franchise Loans Receivable	380	380	365	365	375	375
Certain other assets	76	76	74	74	67	67
Financial assets required to be classified as fair value through profit or loss:						
Derivatives included in prepaid expenses and other assets	1	1	47	47	2	2
Derivatives included in other assets	—	—	44	44	—	—
Total financial assets	$ 5,362	$ 5,362	$ 5,127	$ 5,127	$ 7,812	$ 7,812

(millions of Canadian dollars)	As at June 14, 2014 Total carrying amount	As at June 14, 2014 Total fair value	As at June 15, 2013 Total carrying amount	As at June 15, 2013 Total fair value	As at December 28, 2013 Total carrying amount	As at December 28, 2013 Total fair value
Financial liabilities designated as fair value through profit or loss:						
Bank indebtedness	$ 335	$ 335	$ —	$ —	$ —	$ —
Financial liabilities required to be classified as fair value through profit or loss:						
Derivatives included in trade payables and other liabilities	1	1	3	3	4	4
Trust Unit Liability	715	715	—	—	688	688
Other financial liabilities (amortized cost):						
Trade payables and other liabilities	4,575	4,575	3,479	3,479	3,793	3,793
Short term debt	605	605	905	905	605	605
Long Term Debt	11,871	12,768	5,511	6,167	7,680	8,188
Capital Securities	224	238	223	236	224	236
Certain other liabilities	8	8	42	42	40	40
Total financial liabilities	$ 18,334	$ 19,245	$ 10,163	$ 10,832	$ 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 June 14, 2014	As at June 15, 2013	As at December 28, 2013
Level 1			
Financial assets			
Designated as fair value through profit or loss	$ 1,182	$ 1,318	$ 4,238
Financial liabilities			
Designated as fair value through profit or loss	335	—	—
Classified as fair value through profit or loss	715	—	688
Other financial liabilities (amortized cost)	238	236	236
Level 2			
Financial assets			
Classified as fair value through profit or loss	$ —	$ 91	$ 2
Designated as fair value through profit or loss	141	524	13
Loans and receivables (amortized cost)	22	9	8
Financial liabilities			
Classified as fair value through profit or loss	1	2	—
Other financial liabilities (amortized cost)	12,771	6,167	8,188
Level 3			
Financial assets			
Classified as fair value through profit or loss	$ 1	$ —	$ —
Loans and receivables (amortized cost)	434	430	434
Financial liabilities			
Classified as fair value through profit or loss	—	1	4
Other financial liabilities (amortized cost)	5	42	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 June 14, 2014, June 15, 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 prepaid expenses and other assets as at June 14, 2014 was $1 million (June 15, 2013 – $1 million in trade payables and other liabilities; December 28, 2013 – $4 million in trade payable and other liabilities). During the second quarter of 2014, a $4 million gain (2013 – $2 million) was recorded in operating income and a $4 million gain (2013 – nominal gain) was recorded year-to-date. As at June 14, 2014, a 1% increase (decrease) in foreign currency exchange rates would result in a $1 million gain (loss) in fair value.

During the second quarter of 2014, the Company recognized a loss of $4 million (2013 – $7 million) and a gain of $3 million year-to-date (2013 – $21 million) on financial instruments designated as fair value through profit or loss. In addition, during the second quarter of 2014 a loss of $6 million (2013 – $21 million gain) and a loss of $16 million year-to-date (2013 – $2 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 second quarter of 2014, net interest expense of $144 million (2013 – $77 million) and $253 million (2013 – $153 million) year-to-date 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 second 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.

During the second quarter of 2013, the Company settled a USD $150 million USPP cross currency swap, which matured on May 29, 2013 and realized a foreign exchange gain of $5 million, net of tax of $2 million, in operating income, which was previously deferred in accumulated other comprehensive income.

As at the end of the second quarter of 2013, Loblaw held cross currency swaps to exchange $148 million Canadian dollars for USD $150 million, for settlement of Loblaw's USPP notes included in long term debt. During the third quarter of 2013, the Company settled this USPP cross currency swap.

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

	Glenhuron Cross Currency Swaps	USPP Cross Currency Swaps
(millions of Canadian dollars)	As at June 15, 2013	As at June 15, 2013
Exchange amount	$ 1,206	$ 148
Cumulative unrealized foreign currency exchange rate receivable recorded in:		
Prepaid expenses and other assets	$ 38	$ 8
Other assets	44	—

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

	Glenhuron Cross Currency Swaps	Glenhuron Cross Currency Swaps	USPP Cross Currency Swaps	USPP Cross Currency Swaps
(millions of Canadian dollars)	June 15, 2013 (12 weeks)	June 15, 2013 (24 weeks)	June 15, 2013 (12 weeks)	June 15, 2013 (24 weeks)
Fair value (gain) loss related to swaps[(i)]	(7)	24	(1)	(9)
Translation loss (gain) related to the underlying exposures	7	(21)	1	9

(i) Excludes the $7 million gain reclassified from accumulated other comprehensive income in the second quarter of 2013.

Interest Rate Swaps During the second quarter of 2013, the Company settled its notional $100 million interest rate swaps. In the second quarter of 2013 and year-to-date, the Company recognized a $3 million fair value gain related to these swaps in operating income. As at the end of the second quarter of 2013, the Company maintained a notional $50 million in interest rate swaps which paid a fixed-rate of interest of 8.25%. As at June 15, 2013, the fair value of these interest rate swaps of $2 million was recorded in trade payables and other liabilities. During the third quarter of 2013, the Company settled its remaining notional $50 million in 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 second quarter of 2014, the Company recognized a $3 million loss (2013 – nominal gain) and nominal gain year-to-date (2013 – $2 million) in operating income related to these derivatives. As at June 14, 2014, a cumulative unrealized loss of $1 million was recorded in trade payables and other liabilities (June 15, 2013 – $1 million gain and December 28, 2013 – $2 million gain, recorded in prepaid expenses and other assets, respectively).

Trust Unit Liability As at June 14, 2014, the fair value of the Trust Unit Liability of $715 million (June 15, 2013 – nil; December 28, 2013 – $688 million) was recorded on the condensed consolidated balance sheets. During the second quarter of 2014 and year-to-date, the Company recorded a fair value loss of $8 million and $20 million, respectively, in net interest expense and other financing charges related to Choice Properties' Trust Units ("Units"). Choice Properties issued 381,641 Units during the second quarter of 2014 (2013 – nil) and 722,363 Units year-to-date (2013 – nil), to eligible unitholders under its distribution reinvestment plan. The issuance resulted in a $4 million increase (2013 – nil) to the Trust Unit Liability and $7 million increase year-to-date (2013 – nil).

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 second quarter of 2014, the Company held an 82.6% ownership interest in Choice Properties.

Franchise Loans Receivable and Franchise Investments in Other Assets The value of Loblaw franchise loans receivable of $380 million (June 15, 2013 – $365 million; December 28, 2013 – $375 million) was recorded on the consolidated balance sheets. During the second quarter of 2014, the Company recorded an impairment loss of $4 million (2013 – $2 million) and an impairment loss of $5 million (2013 – $5 million) year-to-date in operating income related to these loans receivable.

The value of Loblaw franchise investments of $54 million (June 15, 2013 – $65 million; December 28, 2013 – $58 million) was recorded in other assets. During the second quarter of 2014, the Company recorded an $8 million gain (2013 – $1 million loss) and a $9 million gain (2013 – $6 million loss) year-to-date in operating income related to these investments.

Note 20. 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 (the “CRA”) that it intended to proceed with a reassessment related to the tax treatment of the Company’s wholly owned foreign subsidiary Glenhuron. Subsequent to the end of the second quarter, the Company received a communication from the CRA providing its position that certain income earned by Glenhuron in Barbados in respect of the 2000 to 2010 taxation years should be treated, and taxed, as income in Canada and that it intends to reassess the Company accordingly. The Company disagrees with the CRA’s position. The Company has yet to be formally reassessed and continues to provide the CRA with information and documentation to support its position.

If the CRA proceeds with the proposed reassessment, the Company intends to vigorously defend its position and to pursue all of its objection and appeal rights to the appropriate judicial bodies. If the CRA were to prevail in all of these challenges, which the Company believes would be unlikely, the estimated total tax and interest based on the CRA’s assertion of the required income inclusion would be approximately $440 million in respect of the 2000 to 2010 taxation years. No amount has been provided for a potential reassessment in the Company’s financial statements.

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 21. Segment Information

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

- The Retail segment consists primarily of retail food and Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, gas bars, and apparel and other general merchandise;
- 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 EBITDA(iv) and adjusted operating income(iv), as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

(millions of Canadian dollars) (unaudited)	June 14, 2014 (12 weeks) Retail	Financial Services(i)	Choice Properties(i)	Consolidation and Eliminations(ii)	Total	June 15, 2013 (12 weeks) Retail	Financial Services	Choice Properties	Consolidation and Eliminations	Total
Revenue(iii)	$ 10,097	$ 192	$ 170	$ (152)	$ 10,307	$ 7,372	$ 148	$ —	$ —	$ 7,520
Operating (Loss) Income	$ (496)	$ 38	$ 122	$ (120)	$ (456)	$ 293	$ 28	$ —	$ —	$ 321
Adjusting Items(iv)	990	—	6	—	996	6	—	—	—	6
Adjusted Operating Income(iv)	$ 494	$ 38	$ 128	$ (120)	$ 540	$ 299	$ 28	$ —	$ —	$ 327
Depreciation and Amortization(v)	$ 254	$ 2	$ —	$ 3	$ 259	$ 189	$ 2	$ —	$ —	$ 191
Adjusted EBITDA(iv)	$ 748	$ 40	$ 128	$ (117)	$ 799	$ 488	$ 30	$ —	$ —	$ 518
Net interest expense and other financing charges	$ 97	$ 12	$ 124	$ (83)	$ 150	$ 70	$ 10	$ —	$ —	$ 80

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(ii) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $117 million of rental revenue and $35 million of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Operating income includes the elimination of the $117 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 $105 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 an $11 million fair value gain recognized by Choice Properties on Class B Limited Partnership units held by the Company; the elimination of $8 million of Choice Properties interest expense incurred to June 30, 2014 and an $8 million fair value loss on the Company's Trust Unit Liability.

(iii) Included in Financial Services revenue is $86 million (June 15, 2013 – $65 million) of interest income.

(iv) 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.

(v) Depreciation and amortization for the calculation of adjusted EBITDA excludes $125 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars) (unaudited)	June 14, 2014 (24 weeks) Retail	Financial Services(i)	Choice Properties(i)	Consolidation and Eliminations(ii)	Total	June 15, 2013 (24 weeks) Retail	Financial Services	Choice Properties	Consolidation and Eliminations	Total
Revenue(iii)	$ 17,192	$ 372	$ 337	$ (302)	$ 17,599	$ 14,409	$ 313	$ —	$ —	$ 14,722
Operating (Loss) Income	$ (256)	$ 74	$ 240	$ (238)	$ (180)	$ 592	$ 58	$ —	$ —	$ 650
Adjusting Items(iv)	999	—	12	—	1,011	(45)	—	—	—	(45)
Adjusted Operating Income(iv)	$ 743	$ 74	$ 252	$ (238)	$ 831	$ 547	$ 58	$ —	$ —	$ 605
Depreciation and Amortization(v)	$ 444	$ 4	$ —	$ 6	$ 454	$ 369	$ 5	$ —	$ —	$ 374
Adjusted EBITDA(iv)	$ 1,187	$ 78	$ 252	$ (232)	$ 1,285	$ 916	$ 63	$ —	$ —	$ 979
Net interest expense and other financing charges	$ 167	$ 25	$ 250	$ (177)	$ 265	$ 135	$ 21	$ —	$ —	$ 156

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(ii) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $232 million of rental revenue and $70 million of cost recovery recognized by Choice Properties, received from the Retail segment.
- Operating income includes the elimination of the $232 million impact of rental revenue described above and the recognition of $6 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 $174 million of interest expense included in Choice Properties related to debt owing to the Company; Unit distributions to external unitholders of $22 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 $37 million fair value loss recognized by Choice Properties on Class B Limited Partnership units held by the Company; the elimination of $8 million of Choice Properties interest expense incurred to June 30, 2014; and a $20 million fair value loss on the Company's Trust Unit Liability.

(iii) Included in Financial Services revenue is $175 million (June 15, 2013 – $141 million) of interest income.

(iv) 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.

(v) Depreciation and amortization for the calculation of adjusted EBITDA excludes $125 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	As at June 14, 2014	As at June 15, 2013	As at December 28, 2013
Total Assets			
Retail	$ 30,582	$ 15,202	$ 17,290
Financial Services(i)	2,881	2,514	2,801
Choice Properties(i)	7,719	—	7,448
Consolidation and Eliminations(ii)	(7,157)	—	(6,798)
Total	$ 34,025	$ 17,716	$ 20,741

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(ii) 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)	June 14, 2014 (12 weeks)	June 15, 2013 (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013 (24 weeks)
Additions to Fixed Assets and Intangible Assets				
Retail(i)	$ 206	$ 189	$ 293	$ 317
Financial Services(ii)	5	1	10	1
Choice Properties(ii)	86	—	111	—
Consolidation and Eliminations(iii)	(58)	—	(58)	—
Total	$ 239	$ 190	$ 356	$ 318

(i) Excludes $11.3 billion of fixed assets, investment properties and intangible assets, resulting from the acquisition of Shoppers Drug Mart (see note 3).

(ii) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(iii) 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.

Note 22. Subsequent Events

On July 21, 2014, subsequent to the end of the second quarter, the Competition Bureau approved the sale of two franchise grocery stores, two Shoppers Drug Mart stores and approved the licensing of nine in-store pharmacies to unrelated parties. These sales and licensing agreements are being made pursuant to the Consent Agreement reached with the Competition Bureau relating to the Company's acquisition of Shoppers Drug Mart.

On July 23, 2014, subsequent to the end of the second quarter, the Company reached an agreement to re-price the interest rate on the unsecured term loan facility obtained to finance the acquisition of Shoppers Drug Mart to reduce the rate from Bankers' Acceptance rate plus 1.75% to Bankers' Acceptance rate plus 1.45%. As at June 14, 2014, the balance of the term loan facility was $1.9 billion.

Financial Summary(3)

As at or for the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013 (12 weeks)
Consolidated Results of Operations		
Revenue	$ 10,307	$ 7,520
Operating (loss) income	(456)	321
Adjusted operating income(2)	540	327
Adjusted EBITDA(2)	799	518
Net interest expense and other financing charges	150	80
Net (loss) earnings	(456)	177
Adjusted net earnings(2)	301	181
Consolidated Financial Position and Cash Flows		
Adjusted debt(2)	10,710	4,433
Cash and cash equivalents, short term investments and security deposits	1,323	1,842
Cash flows from operating activities	959	572
Capital investment	(222)	(190)
Free cash flow(2)	801	392
Consolidated Per Common Share ($)		
Basic net (loss) earnings	(1.13)	0.63
Adjusted basic net earnings(2)	0.75	0.64
Consolidated Financial Measures and Ratios		
Revenue growth	37.1 %	2.0 %
Adjusted operating margin(2)	5.2 %	4.3 %
Adjusted EBITDA margin(2)	7.8 %	6.9 %
Adjusted debt(2) to rolling year adjusted EBITDA(2)	4.4x	2.1x
Rolling year return on average net assets(2)	2.4 %	10.8 %
Rolling year return on average shareholders' equity	(0.7)%	11.2 %
Retail Results of Operations		
Sales	10,097	7,372
Gross profit	1,840	1,642
Operating (loss) income	(496)	293
Adjusted operating income(2)	494	299
Adjusted EBITDA(2)	748	488
Retail Operating Statistics		
Same-store sales(3) growth(i)	1.8 %	1.1 %
Adjusted gross profit percentage(2)	26.3 %	22.3 %
Adjusted operating margin(2)	4.9 %	4.1 %
Adjusted EBITDA margin(2)	7.4 %	6.6 %
Retail square footage (in millions)	70.0	51.6
Number of corporate stores(ii)	624	574
Number of franchise stores	511	483
Number of Associate-owned drug stores	1,306	—
Financial Services Results of Operations(iii)		
Revenue	192	148
Operating income	38	28
Earnings before income taxes	26	18
Financial Services Operating Measures and Statistics(3)		
Average quarterly net credit card receivables	2,499	2,253
Credit card receivables	2,561	2,279
Allowance for credit card receivables	48	43
Annualized yield on average quarterly gross credit card receivables	13.8 %	13.5 %
Annualized credit loss rate on average quarterly gross credit card receivables	4.7 %	4.3 %
Choice Properties Results of Operations(iv)		
Revenue	170	—
Operating income	122	—
Adjusted operating income(2)	128	—
Net interest expense and other financing charges	124	—
Choice Properties Operating Measures(3)		
Net operating income(2)	119	—
Funds from operations(2)	34	—
Adjusted funds from operations(2)	69	—
Adjusted funds from operations per unit diluted(2) ($)	0.18	—
Adjusted funds from operations payout ratio(2)	88.3 %	—

(i) Same-store sales(3) growth excludes the results of Shoppers Drug Mart.
(ii) 2014 figure includes 68 Shoppers Drug Mart corporate stores.
(iii) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.
(iv) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to June 14, 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.

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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 July 24, 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: 9950696. 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 are available on the Loblaw Companies Limited website at loblaw.ca.

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