Loblaw

COMPANIES LIMITED

Q3

THIRD QUARTER REPORT TO SHAREHOLDERS

40 WEEKS ENDING OCTOBER 4, 2014

2014 Third Quarter Report to Shareholders

Footnote Legend

(1) To be read in conjunction with Forward-Looking Statements beginning on page 12.

(2) See Non-GAAP Financial Measures beginning on page 38.

(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 38 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 36.

2014 Third Quarter Highlights(1)

"In the third quarter we continued to advance our strategic initiatives and improve our market position," said Galen G. Weston, President and Executive Chairman, Loblaw Companies Limited. "We delivered solid performance across our portfolio of businesses, recognized efficiencies, realized significant synergies, and remained on track with our deleveraging targets.

"Although the industry and regulatory backdrop continues to be challenging, our momentum is encouraging," continued Mr. Weston. "As we look forward, we believe our performance will continue to improve, supported by stable business performance, further efficiencies, and planned synergies."

- As previously reported, Loblaw Companies Limited (the "Company" or "Loblaw") successfully completed its acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") in the second quarter and, as a result, the third quarter and year-to-date results include the consolidation of Shoppers Drug Mart (from the date of acquisition) and the associated acquisition-related accounting adjustments, as reported in the Retail operating segment.
- Revenue of $13,599 million increased 35.9% over the third quarter of 2013. Excluding the impact of Shoppers Drug Mart, revenue increased by 2.0% compared to the third quarter of 2013.
- Retail sales growth of 36.9% compared to the third quarter of 2013. Excluding the impact of Shoppers Drug Mart, retail sales grew by 2.2% and same-store sales(3) growth was 2.6%.
- Shoppers Drug Mart sales were $3,387 million in the third quarter. On a same-store basis, Shoppers Drug Mart sales increased by 2.5%, with same-store pharmacy sales increasing by 3.5% and same-store front store sales increasing by 1.6% over the third quarter of 2013.
- In the third quarter of 2014, the Company realized approximately $44 million of net synergies associated with the acquisition of Shoppers Drug Mart.
- Adjusted EBITDA(2) up 56.9% to $1,001 million compared to $638 million in the third quarter of 2013. Excluding the impact of Shoppers Drug Mart, adjusted EBITDA(2) increased $8 million compared to the third quarter of 2013.
- Adjusted operating income(2) up 74.2% to $669 million compared to $384 million in the third quarter of 2013. Excluding the impact of Shoppers Drug Mart, adjusted operating income(2) increased by $10 million, or 2.6%, compared to the third quarter of 2013.
- Adjusted basic net earnings per common share(2) up 23.3% to $0.90 compared to $0.73 in the third quarter of 2013.
- Basic net earnings per common share(3), including charges of $0.56 per common share related to certain Shoppers Drug Mart acquisition-related amounts and certain other adjustments(i), was $0.34 compared to basic net earnings per common share(3) of $0.53 in the third quarter of 2013.
- Free cash flow(2) was $216 million for the third quarter of 2014 and $597 million year-to-date.
- During the third quarter of 2014, the Company recorded $46 million (2013 – $3 million) in restructuring and reorganization costs primarily associated with the reduction of corporate and store-support positions, the departure of certain executives and the realignment of certain of the Company's central office functions.
- The Company continued to make progress and is on track towards its debt reduction targets, with an adjusted debt(2) decrease of approximately $300 million in the third quarter of 2014. In the third quarter of 2014, the Company repaid $350 million of its term loan facility, which was partially offset by draws on the $500 million senior unsecured committed credit facility ("Choice Properties Credit Facility") in the amount of $40 million.

(i) Basic net earnings per common share(3) of $0.34 in the third quarter of 2014 included the amortization of intangible assets ($0.31 per share), the negative impact of the recognition of a portion of the Shoppers Drug Mart purchase-related fair value adjustments for inventory sold ($0.19 per share) and certain other adjustments ($0.06 per share).

Consolidated Quarterly Results of Operations

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014 (16 weeks)**	2013[4] (16 weeks)	$ Change	% Change	**2014 (40 weeks)**	2013[4] (40 weeks)	$ Change	% Change
Revenue	**$ 13,599**	$ 10,009	$ 3,590	35.9 %	**$ 31,198**	$ 24,731	$ 6,467	26.1 %
Revenue excluding Shoppers Drug Mart	***10,212***	*10,009*	*203*	*2.0 %*	***25,202***	*24,731*	*471*	*1.9 %*
EBITDA[2]	**835**	629	206	32.8 %	**1,234**	1,653	(419)	(25.3)%
Adjusted EBITDA[2]	**1,001**	638	363	56.9 %	**2,286**	1,617	669	41.4 %
Adjusted EBITDA margin[2]	**7.4%**	6.4%			**7.3%**	6.5%		
Adjusted EBITDA[2] excluding Shoppers Drug Mart	***$ 646***	*$ 638*	*$ 8*	*1.3 %*	***$ 1,650***	*$ 1,617*	*$ 33*	*2.0 %*
Adjusted EBITDA margin[2] excluding Shoppers Drug Mart	***6.3%***	*6.4%*			***6.5%***	*6.5%*		
Operating income	**$ 335**	$ 375	$ (40)	(10.7)%	**$ 155**	$ 1,025	$ (870)	(84.9)%
Adjusted operating income[2]	**669**	384	285	74.2 %	**1,500**	989	511	51.7 %
Adjusted operating margin[2]	**4.9%**	3.8%			**4.8%**	4.0%		
Adjusted operating income[2] excluding Shoppers Drug Mart	***$ 394***	*$ 384*	*$ 10*	*2.6 %*	***$ 1,006***	*$ 989*	*$ 17*	*1.7 %*
Adjusted operating income margin[2] excluding Shoppers Drug Mart	**3.9%**	*3.8%*			**4.0%**	*4.0%*		
Net interest expense and other financing charges	**150**	171	(21)	(12.3)%	**415**	327	88	26.9 %
Net earnings (loss)	**142**	150	(8)	(5.3)%	**(194)**	513	(707)	(137.8)%
Adjusted net earnings[2]	**371**	205	166	81.0 %	**828**	535	293	54.8 %
Basic net earnings (loss) per common share[3] ($)	**0.34**	0.53	(0.19)	(35.8)%	**(0.52)**	1.82	(2.34)	(128.6)%
Adjusted basic net earnings per common share[2] ($)	**0.90**	0.73	0.17	23.3 %	**2.24**	1.90	0.34	17.9 %

With the completion of the acquisition of Shoppers Drug Mart in the second quarter of 2014, the Company's results include the consolidation of Shoppers Drug Mart from the date of acquisition. The Shoppers Drug Mart assets were 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 is being recognized in cost of merchandise inventories from the date of acquisition to the end of 2014, with a resulting negative impact on gross profit. In the third quarter of 2014, $107 million of the fair value increment was recognized from inventory sold. The remaining inventory fair value adjustment of $69 million will be recognized in the fourth quarter of 2014 as the inventory is sold; and
- a $6 billion increase for the acquisition of definite life intangible assets, which is being amortized over their estimated useful lives. In the third quarter of 2014, $168 million of related amortization was recognized in operating income. Annual amortization of approximately $550 million associated with these intangibles will be recognized over the next ten years and decreasing thereafter.

In the third quarter of 2014, the Company has also recognized a net gain of $2 million related to store and pharmacy divestitures required by the Competition Bureau as a result of the acquisition of Shoppers Drug Mart.

The Company also recorded a $4 million charge related to the accelerated amortization of deferred financing costs in net interest and other financing charges as a result of the repayment of $350 million of the term loan facility in the third quarter of 2014.

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 38. The Company does not anticipate any significant additional costs related to the acquisition of Shoppers Drug Mart to be incurred, other than in relation to the remaining store divestitures.

The Company's third quarter 2014 results also included a charge of $7 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 $3,590 million compared to the third quarter of 2013, primarily due to Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, consolidated revenue increased by 2.0% primarily due to an increase in the Company's Retail segment, slightly offset by a decrease in revenue in the Financial Services segment.

EBITDA(2)

- EBITDA(2) increased by $206 million compared to the third quarter of 2013, primarily driven by Shoppers Drug Mart. EBITDA(2) was also positively impacted by the net gain on store and pharmacy divestitures related to the acquisition of Shoppers Drug Mart ($2 million) and negatively impacted by the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold ($107 million), increased restructuring costs ($43 million), increased fixed asset and other related impairments ($6 million) and a fair value adjustment on Shoppers Drug Mart's equity-based compensation liability ($5 million).
- Adjusted EBITDA(2) increased by $363 million compared to the third quarter of 2013, primarily driven by Shoppers Drug Mart. Adjusted EBITDA margin(2) was 7.4% for the third quarter of 2014 compared to 6.4% in the same quarter in 2013. Excluding the impact of Shoppers Drug Mart, adjusted EBITDA(2) increased by $8 million compared to the third quarter of 2013, driven by an increase in adjusted EBITDA(2) in the Company's Retail segment. Excluding the impact of Shoppers Drug Mart, adjusted EBITDA margin(2) was 6.3% compared to 6.4% in the same quarter in 2013.

Synergies

- During the third quarter of 2014, the Company realized approximately $44 million of net synergies associated with the acquisition of Shoppers Drug Mart, primarily in cost of goods sold.

Operating Income

- Operating income decreased by $40 million compared to the third quarter of 2013, primarily driven by Shoppers Drug Mart. Operating income was negatively impacted by the amortization of intangible assets of $168 million related to the acquisition of Shoppers Drug Mart and was also impacted by the net factors related to EBITDA(2) described above.
- Adjusted operating income(2) increased by $285 million compared to the third quarter of 2013, primarily driven by Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, adjusted operating income(2) increased by $10 million and was positively impacted by an increase in adjusted EBITDA(2) in the Company's Retail segment and a decrease in depreciation and amortization(2) of $2 million.

Net Interest Expense and Other Financing Charges

- Net interest expense and other financing charges decreased by $21 million compared to the third quarter of 2013. Excluding the impacts described below, net interest expense and other financing charges increased by $63 million, driven by higher interest on long term debt, primarily as a result of debt incurred to finance the acquisition of Shoppers Drug Mart.

  In addition to the above, net interest expense and other financing charges were impacted by the following:
  - a favourable $16 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;
  - Choice Properties' initial public offering ("IPO") transaction costs of $43 million, incurred in the third quarter of 2013;
  - early debt settlement costs of $18 million, incurred in the third quarter of 2013; and
  - Shoppers Drug Mart acquisition-related costs of $11 million incurred in the third quarter of 2013.

  These impacts were partially offset by:
  - a $4 million charge related to the accelerated amortization of deferred financing costs due to the repayment in the third quarter of 2014 of $350 million of the term loan facility used to acquire Shoppers Drug Mart.

Income Taxes

- Income tax expense was $43 million for the third quarter of 2014 compared to $54 million for the third quarter of 2013. The effective tax rate for the third quarter of 2014 was 23.2% compared to 26.5% for the third quarter of 2013. The decrease in the effective tax rate was primarily attributable to a decrease in certain non-deductible items. The effective income tax rate on adjusted net earnings(2) was 25.8% (2013 – 26.3%). The decrease in the effective income tax rate on adjusted net earnings(2) was primarily attributable to a decrease in certain non-deductible items.

Net Earnings

- Net earnings decreased by $8 million compared to the third quarter of 2013, primarily driven by the decrease in operating income, largely offset by the decrease in net interest expense and other financing charges and by the decrease in income taxes as described above.
- Adjusted net earnings[2] increased by $166 million to $371 million compared to the third quarter of 2013, primarily driven by higher adjusted operating income[2], mainly as a result of Shoppers Drug Mart, partially offset by higher net interest and other financing charges after excluding certain items described above (see Non-GAAP Financial Measures beginning on page 38), and the increase in income tax expense on adjusted net earnings[2].

Basic Net Earnings Per Common Share[3]

- Basic net earnings per common share[3] of $0.34 in the third quarter of 2014 included the amortization of intangible assets ($0.31 per share), the negative impact of the recognition of a portion of the Shoppers Drug Mart purchase-related fair value adjustments for inventory sold ($0.19 per share) and certain other adjustments ($0.06 per share). This compares to basic net earnings per common share[3] of $0.53 in the third quarter of 2013.
- Adjusted basic net earnings per common share[2] was $0.90 in the third quarter of 2014 compared to $0.73 in the third quarter of 2013. This increase was primarily due to the increase in adjusted net earnings[2] as described above, partially offset by the dilutive effect of the 119.5 million common shares issued as partial consideration for the acquisition of Shoppers Drug Mart.

Capital Investment

- In the third quarter of 2014, the Company invested $300 million (2013 – $252 million) in capital expenditures.

Free Cash Flow[2]

- For the third quarter of 2014, free cash flow[2] was $216 million compared to negative $5 million in the third quarter of 2013. The increase in free cash flow[2] was primarily due to higher cash flows from operating activities, net of credit card receivables, partially offset by higher interest payments. The higher cash flows from operating activities were primarily due to Shoppers Drug Mart.

Adjusted Debt[2]

- The Company's adjusted debt[2] balance increased significantly as a result of its acquisition of Shoppers Drug Mart. On closing of the acquisition, adjusted debt[2] increased to approximately $11,060 million. Since that date, the Company has made progress and is on track towards its debt reduction targets by decreasing adjusted debt[2] to $10,416 million as at the end of the third quarter of 2014, a decrease of approximately $650 million. Since closing of the acquisition, the Company has repaid $1.95 billion of its $3.5 billion term loan facility and repaid a $350 million medium term note. This was partially offset by $1.5 billion related to the sale of Choice Properties Transferor Notes by the Company to third parties, Choice Properties Credit Facility draws in the amount of $77 million and other indebtedness.

Retail Segment

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (16 weeks)	2013[4] (16 weeks)	$ Change	% Change	2014 (40 weeks)	2013[4] (40 weeks)	$ Change	% Change
Sales	**$ 13,375**	$ 9,772	$ 3,603	36.9 %	**$ 30,567**	$ 24,181	$ 6,386	26.4 %
Gross profit	**3,366**	2,098	1,268	60.4 %	**6,809**	5,336	1,473	27.6 %
Adjusted gross profit[2]	**3,473**	2,098	1,375	65.5 %	**7,728**	5,336	2,392	44.8 %
EBITDA[2]	**790**	585	205	35.0 %	**1,103**	1,546	(443)	(28.7)%
Adjusted EBITDA[2]	**954**	591	363	61.4 %	**2,141**	1,507	634	42.1 %
Operating income	**294**	336	(42)	(12.5)%	**38**	928	(890)	(95.9)%
Adjusted operating income[2]	**626**	342	284	83.0 %	**1,369**	889	480	54.0 %

For the periods ended October 4, 2014 and October 5, 2013 (unaudited)	2014 (16 weeks)	2013[4] (16 weeks)	2014 (40 weeks)	2013[4] (40 weeks)
Same-store sales[3] growth[(i)]	**2.6%**	0.4%	**1.9%**	1.3%
Adjusted gross profit %[2]	**26.0%**	21.5%	**25.3%**	22.1%
Adjusted EBITDA margin[2]	**7.1%**	6.0%	**7.0%**	6.2%
Adjusted operating margin[2]	**4.7%**	3.5%	**4.5%**	3.7%

(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 25 of the Company's Third Quarter News Release.

Except as noted, 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 25 of the Company's Third Quarter 2014 News Release.

Sales

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (16 weeks)	2013[4] (16 weeks)	$ Change	% Change	2014 (40 weeks)	2013[4] (40 weeks)	$ Change	% Change
Retail sales	**$ 13,375**	$ 9,772	$ 3,603	36.9%	**$ 30,567**	$ 24,181	$ 6,386	26.4%
Shoppers Drug Mart	**3,387**				**5,996**			
Excluding Shoppers Drug Mart	**$ 9,988**	$ 9,772	$ 216	2.2%	**$ 24,571**	$ 24,181	$ 390	1.6%

- In the third quarter of 2014, the increase in Retail sales of $3,603 million, or 36.9%, over the same period in the prior year included $3,387 million of sales related to Shoppers Drug Mart. Excluding Shoppers Drug Mart, Retail sales increased by $216 million, or 2.2%, compared to the same period in the prior year, as a result of the following factors:
  - Same-store sales[3] growth was 2.6% (2013 – 0.4%) for the quarter and growth, excluding gas bar, was 2.7% (2013 – 0.1%);
  - Sales growth in food was moderate;
  - Sales in drugstore were flat;
  - Sales growth in gas bar was moderate;
  - Sales in general merchandise, excluding apparel, were flat;
  - Sales growth in retail apparel was modest, while international 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 2.8% (2013 – 0.9%) 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
  - 18 corporate and franchise stores were opened and 10 corporate and franchise stores were closed in the last 12 months with an additional two franchise grocery stores divested as a result of an agreement with the Competition Bureau related to the acquisition of Shoppers Drug Mart, resulting in flat square footage growth.

- From the acquisition date, Shoppers Drug Mart opened nine new drug stores and closed eight drug stores with an additional two drug stores divested as a result of an agreement with the Competition Bureau related to the Company's acquisition of Shoppers Drug Mart. As a result, net square footage increased by 0.1 million square feet, or 0.4%.

Gross Profit

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014 (16 weeks)**	2013[4] (16 weeks)	$ Change	% Change	**2014 (40 weeks)**	2013[4] (40 weeks)	$ Change	% Change
Retail gross profit	**$ 3,366**	$ 2,098	$ 1,268	60.4%	**$ 6,809**	$ 5,336	$ 1,473	27.6%
Adjustments[2]	**107**	—			**919**	—		
Adjusted Retail gross profit[2]	**$ 3,473**	$ 2,098	$ 1,375	65.5%	**$ 7,728**	$ 5,336	$ 2,392	44.8%
Adjusted gross profit %[2]	**26.0%**	21.5%			**25.3%**	22.1%		
Shoppers Drug Mart	**$ 1,323**				**$ 2,322**			
Excluding Shoppers Drug Mart	**$ 2,150**	$ 2,098	$ 52	2.5%	**$ 5,406**	$ 5,336	$ 70	1.3%
Adjusted gross profit %[2]	**21.5%**	21.5%			**22.0%**	22.1%		

- In the third quarter of 2014, gross profit increased by $1,268 million compared to the same period in 2013, primarily due to Shoppers Drug Mart and was negatively impacted by the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold.
- Adjusted gross profit[2] increased by $1,375 million and included $1,323 million of adjusted gross profit[2] related to Shoppers Drug Mart. Adjusted gross profit percentage[2] was 26.0% compared to 21.5% in the third quarter of 2013.
- Excluding Shoppers Drug Mart, adjusted gross profit percentage[2] was 21.5%, flat compared to the same period last year. While adjusted gross profit percentage[2] was flat, retail margins decreased, driven by inflationary pressures, and shrink was higher due to continued investments in fresh assortment. Synergies and lower transportation costs fully offset these decreases.
- Excluding Shoppers Drug Mart, adjusted gross profit[2] increased by $52 million, or 2.5%, compared to the same period in 2013, driven by higher sales.

EBITDA[2]

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014 (16 weeks)**	2013[4] (16 weeks)	$ Change	% Change	**2014 (40 weeks)**	2013[4] (40 weeks)	$ Change	% Change
Retail EBITDA[2]	**$ 790**	$ 585	$ 205	35.0%	**$ 1,103**	$ 1,546	$ (443)	(28.7)%
Adjustments[2]	**164**	6			**1,038**	(39)		
Adjusted Retail EBITDA[2]	**$ 954**	$ 591	$ 363	61.4%	**$ 2,141**	$ 1,507	$ 634	42.1 %
Adjusted EBITDA margin[2]	**7.1%**	6.0%			**7.0%**	6.2%		
Shoppers Drug Mart	**355**				**636**			
Excluding Shoppers Drug Mart	**$ 599**	$ 591	$ 8	1.4%	**$ 1,505**	$ 1,507	$ (2)	(0.1)%
Adjusted EBITDA margin[2]	**6.0%**	6.0%			**6.1%**	6.2%		

- EBITDA[2] increased by $205 million compared to the third quarter of 2013 primarily due to Shoppers Drug Mart and was positively impacted by the net gain on store and pharmacy divestitures related to Shoppers Drug Mart, offset by the recognition of the $107 million fair value increment on the acquired Shoppers Drug Mart inventory sold, increased restructuring costs, increased fixed asset and other related impairments, and a fair value adjustment on Shoppers Drug Mart's equity-based compensation liability.
- Adjusted EBITDA[2] increased by $363 million compared to the third quarter of 2013 and included $355 million of adjusted EBITDA[2] related to Shoppers Drug Mart.
- Excluding the impact of Shoppers Drug Mart, adjusted EBITDA[2] increased by $8 million. The increase was primarily driven by higher adjusted gross profit as discussed above, partially offset by costs related to certain of the Company's emerging businesses, synergy related costs, higher marketing investments, and an increase in other operating costs.
- For the third quarter of 2014, adjusted EBITDA margin[2] was 7.1% compared to 6.0% in the same period in 2013, primarily driven by the inclusion of Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, adjusted EBITDA margin[2] was flat at 6.0%.

Operating Income

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014** **(16 weeks)**	2013[4] (16 weeks)	$ Change	% Change	**2014** **(40 weeks)**	2013[4] (40 weeks)	$ Change	% Change
Retail operating income	**$ 294**	$ 336	$ (42)	(12.5)%	**$ 38**	$ 928	$ (890)	(95.9)%
Adjustments[2]	**332**	6			**1,331**	(39)		
Adjusted Retail operating income[2]	**$ 626**	$ 342	$ 284	83.0 %	**$ 1,369**	$ 889	$ 480	54.0 %
Adjusted operating margin[2]	**4.7%**	3.5%			**4.5%**	3.7%		
Shoppers Drug Mart	**275**				**494**			
Excluding Shoppers Drug Mart	**$ 351**	$ 342	$ 9	2.6 %	**$ 875**	$ 889	$ (14)	(1.6)%
Adjusted operating margin[2]	**3.5%**	3.5%			**3.6%**	3.7%		

- Operating income decreased by $42 million compared to the third quarter of 2013, primarily as a result of Shoppers Drug Mart, including the negative impact of the amortization of intangible assets recorded on the acquisition and the increase in retail depreciation and amortization, offset by the increase in EBITDA[2] described above.
- Adjusted operating income[2] increased by $284 million compared to the third quarter of 2013, and included $275 million of adjusted operating income[2] related to Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart adjusted operating income[2] increased by $9 million, driven by the increase in adjusted EBITDA[2] described above and a decrease in retail depreciation and amortization[2] of $1 million.

Financial Services Segment

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014(i) (16 weeks)**	2013 (16 weeks)	$ Change	% Change	**2014(i) (40 weeks)**	2013 (40 weeks)	$ Change	% Change
Revenue	**$ 207**	$ 222	$ (15)	(6.8)%	**$ 579**	$ 535	$ 44	8.2%
Operating income	**41**	41	—	— %	**115**	99	16	16.2%
Earnings before income taxes	**27**	27	—	— %	**76**	64	12	18.8%

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**As at October 4, 2014**	As at October 5, 2013	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,512**	$ 2,297	$ 215	9.4%
Credit card receivables	**2,549**	2,430	119	4.9%
Allowance for credit card receivables	**51**	45	6	13.3%
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)	**4.4%**	4.2%		

(i) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with the Financial Services' fiscal calendar. Adjustments to October 4, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 38 of this report. This represents a change from the prior year whereby results were presented consistent with the Company's reporting calendar. The results for 2013 have not been restated.

- Revenue for the third quarter of 2014 decreased by 6.8% compared to the third quarter of 2013. This decrease was primarily driven by the realignment of reporting periods for the second and third quarters of 2014 to reflect the Financial Services' fiscal quarters (see footnote (i) above), partially offset by higher interest income and interchange income as a result of growth in the credit card portfolio.
- Operating income and earnings before income taxes were flat compared to the third quarter of 2013, reflecting the lower quarterly revenue described above as a result of the realignment between the second and third quarter of 2014. Despite the timing difference, lower revenue was offset by lower marketing and customer acquisition expenses and lower costs associated with the Financial Services' loyalty program.
- As at October 4, 2014, credit card receivables were $2,549 million, an increase of $119 million compared to October 5, 2013. This increase was primarily driven by growth in the active customer base as a result of continued investments in customer acquisitions and marketing initiatives. As at October 4, 2014, the allowance for credit card receivables was $51 million, an increase of $6 million compared to October 5, 2013, primarily due to growth in the credit card portfolio.

Choice Properties Segment

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars)	**2014(i) (16 weeks)**	2013(ii) (16 weeks)	$ Change	% Change	**2014(i) (40 weeks)**	2013(ii) (40 weeks)	$ Change	% Change
Revenue	**$ 171**	$ 154	$ 17	11.0 %	**$ 508**	$ 154	$ 354	229.9%
Operating income	**105**	184	(79)	(42.9)%	**345**	184	161	87.5%
Net interest expense and other financing charges	**(18)**	110	(128)	(116.4)%	**232**	110	122	110.9%

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014(i) (16 weeks)**	2013(ii) (16 weeks)	$ Change	% Change	**2014(i) (40 weeks)**	2013(ii) (40 weeks)	$ Change	% Change
Net operating income(2)	**$ 119**	$ 108	$ 11	10.2%	**$ 353**	$ 108	$ 245	226.9%
Funds from operations(2)	**86**	76	10	13.2%	**207**	76	131	172.4%
Adjusted funds from operations(2)	**73**	66	7	10.6%	**211**	66	145	219.7%
Adjusted funds from operations per unit - diluted(2) ($)	**0.19**	0.18			**0.56**	0.18		
Adjusted funds from operations payout ratio(2)	**86.0%**	85.0%			**87.4%**	85.0%		

(i) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to October 4, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 38 of this report.

(ii) Based on operations beginning July 5, 2013.

- Revenue for the third quarter of 2014 increased by 11.0% compared to the third quarter of 2013,, and included $154 million (2013 – $139 million) generated from tenants within the Retail segment. The increase was primarily driven by revenue from properties acquired since the IPO and the inclusion of a full quarter of operations in 2014 compared to a partial quarter included in 2013.
- Operating income decreased by $79 million compared to the third quarter of 2013 and was negatively impacted by a $91 million year-over-year unfavourable fair value adjustment on investment properties. The fair value adjustment on investment properties is eliminated on consolidation.
- Net operating income(2) increased by $11 million compared to the third quarter of 2013. The increase in net operating income(2) was primarily driven by operating results from properties acquired since the IPO and a full quarter of operations in 2014.
- Funds from operations(2) increased by $10 million compared to the third quarter of 2013. The increase was mainly attributable to an increase in net property income, partially offset by increased interest and other financing charges.
- Adjusted funds from operations(2) increased by $7 million compared to the third quarter of 2013. The increase was mainly attributable to the factors impacting funds from operations(2) above, partially offset by the increase in sustaining property and leasing capital expenditures, normalized(2).
- Subsequent to the end of the quarter, the Company sold 16 properties to Choice Properties for an aggregate price of approximately $212 million. Consideration for the properties included 10,698,143 Class B Limited Partnership units, $96 million in cash and the assumption of a $4 million mortgage by Choice Properties. As of November 11, 2014, the Company's ownership interest in Choice Properties was 82.9%.
- Subsequent to the end of the quarter, the Company exercised its option to acquire a warehouse from an unrelated party and entered into a commitment to sell the warehouse to Choice Properties for approximately $82 million. The transaction is expected to close in the first quarter of 2015.

Declaration of Dividends

Subsequent to the end of the third quarter of 2014, the Board of Directors declared a quarterly dividend on Loblaw common shares of $0.245 payable on December 30, 2014 to shareholders of record on December 15, 2014 and a dividend on the Second Preferred Shares, Series A of $0.37 per share payable on January 31, 2015 to shareholders of record on January 15, 2015.

Acquisition of Shoppers Drug Mart Corporation

Loblaw expects to achieve annualized synergies of $300 million in the third full year following the close of the acquisition of Shoppers Drug Mart (net of related costs). First year synergies are being generated primarily from improved cost of goods sold and from purchasing efficiencies in goods not for resale. In the third quarter of 2014, the Company realized approximately $44 million of net synergies associated with the acquisition of Shoppers Drug Mart.

Pursuant to a Consent Agreement reached with the Competition Bureau in the first quarter of 2014, the Company was required to divest 16 Shoppers Drug Mart stores, two of the Company's franchise grocery stores and nine in-store pharmacies.

In the third quarter of 2014, two franchise grocery stores and two Shoppers Drug Mart stores were sold, and the nine in-store pharmacies were licensed to unrelated parties. This resulted in a net gain of $2 million which was recorded in operating income. Subsequent to the end of the third quarter of 2014, the Competition Bureau approved the sale of an additional ten Shoppers Drug Mart stores of which four sales have been completed.

Outlook[1]

In the third quarter of 2014, the Company continued to execute on its strategy and delivered solid financial and operational performance in a very competitive trading environment that saw supermarket square footage growth moderate and greater predictability in regulatory drug reform. The Company expects these industry and business trends to continue for the balance of the year. As a result, for 2014 the Company expects its business divisions to achieve financial and operational performance, on an adjusted basis and excluding synergies, in line with 2013 performance trends. The Company also remains on track to achieve $100 million in net synergies in the first twelve months following the acquisition of Shoppers Drug Mart.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the Company's third quarter 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 third 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 "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. 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 profit percentage[(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 November 11, 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 37 and the Consolidated Results of Operations section on page 15 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 36 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 28, 2013; updated June 2, 2014). Such risks and uncertainties include:

- failure by the Company to realize the anticipated strategic benefits or 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;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- changes in the Company's estimate of inventory cost as a result of its IT system upgrade;
- 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; and
- 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.

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 28, 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 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 third quarter results include the 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 October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (16 weeks)	2013(4) (16 weeks)
Consolidated:		
Revenue growth	**35.9 %**	1.9 %
EBITDA(2)	**$ 835**	$ 629
Adjusted EBITDA(2)	**1,001**	638
Adjusted EBITDA margin(2)	**7.4 %**	6.4 %
Operating income	**$ 335**	$ 375
Adjusted operating income(2)	**669**	384
Adjusted operating margin(2)	**4.9 %**	3.8 %
Net earnings	**$ 142**	$ 150
Adjusted net earnings(2)	**371**	205
Basic net earnings per common share ($)	**0.34**	0.53
Adjusted basic net earnings per common share(2) ($)	**0.90**	0.73
Cash and cash equivalents, short term investments and security deposits	**1,035**	4,220
Cash flows from operating activities	**704**	210
Adjusted debt(2) to rolling year adjusted EBITDA(2)	**3.8x**	3.0x
Free cash flow(2)	**$ 216**	$ (5)
Retail Segment:		
Same-store sales growth(i)	**2.6 %**	0.4 %
Gross profit	**$ 3,366**	$ 2,098
Adjusted gross profit(2)	**3,473**	2,098
Adjusted gross profit %(2)	**26.0 %**	21.5 %
Adjusted operating margin(2)	**4.7 %**	3.5 %
Adjusted EBITDA margin(2)	**7.1 %**	6.0 %
Financial Services Segment(ii):		
Earnings before income taxes	**$ 27**	$ 27
Annualized yield on average quarterly gross credit card receivables	**13.8 %**	13.5 %
Annualized credit loss rate on average quarterly gross credit card receivables	**4.4 %**	4.2 %
Choice Properties Segment(ii):		
Net operating income(2)	**$ 119**	$ 108
Funds from operations(2)	**86**	76
Adjusted funds from operations(2)	**73**	66
Adjusted funds from operations per unit - diluted(2) ($)	**0.19**	0.18
Adjusted funds from operations payout ratio(2)	**86.0 %**	85.0 %

(i) Same-store sales growth excludes the results of Shoppers Drug Mart as Shoppers Drug Mart was acquired in second quarter of 2014. For Shoppers Drug Mart results, including same-stores sales growth, see Addendum A on page 25 of the Company's third quarter News Release.

(ii) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to October 4, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 38 of this report.

Consolidated Quarterly Results of Operations

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014 (16 weeks)**	2013[4] (16 weeks)	$ Change	% Change	**2014 (40 weeks)**	2013[4] (40 weeks)	$ Change	% Change
Revenue	**$ 13,599**	$ 10,009	$ 3,590	35.9 %	**$ 31,198**	$ 24,731	$ 6,467	26.1 %
Revenue excluding Shoppers Drug Mart	***10,212***	*10,009*	*203*	*2.0 %*	***25,202***	*24,731*	*471*	*1.9 %*
EBITDA[2]	**835**	629	206	32.8 %	**1,234**	1,653	(419)	(25.3)%
Adjusted EBITDA[2]	**1,001**	638	363	56.9 %	**2,286**	1,617	669	41.4 %
Adjusted EBITDA margin[2]	**7.4%**	6.4%			**7.3%**	6.5%		
Adjusted EBITDA[2] excluding Shoppers Drug Mart	***$ 646***	*$ 638*	*$ 8*	*1.3 %*	***$ 1,650***	*$ 1,617*	*$ 33*	*2.0 %*
Adjusted EBITDA margin[2] excluding Shoppers Drug Mart	***6.3%***	*6.4%*			***6.5%***	*6.5%*		
Operating income	**$ 335**	$ 375	$ (40)	(10.7)%	**$ 155**	$ 1,025	$ (870)	(84.9)%
Adjusted operating income[2]	**669**	384	285	74.2 %	**1,500**	989	511	51.7 %
Adjusted operating margin[2]	**4.9%**	3.8%			**4.8%**	4.0%		
Adjusted operating income[2] excluding Shoppers Drug Mart	***$ 394***	*$ 384*	*$ 10*	*2.6 %*	***$ 1,006***	*$ 989*	*$ 17*	*1.7 %*
Adjusted operating income margin[2] excluding Shoppers Drug Mart	**3.9%**	*3.8%*			**4.0%**	*4.0%*		
Net interest expense and other financing charges	**150**	171	(21)	(12.3)%	**415**	327	88	26.9 %
Net earnings (loss)	**142**	150	(8)	(5.3)%	**(194)**	513	(707)	(137.8)%
Adjusted net earnings[2]	**371**	205	166	81.0 %	**828**	535	293	54.8 %
Basic net earnings (loss) per common share ($)	**0.34**	0.53	(0.19)	(35.8)%	**(0.52)**	1.82	(2.34)	(128.6)%
Adjusted basic net earnings per common share[2] ($)	**0.90**	0.73	0.17	23.3 %	**2.24**	1.90	0.34	17.9 %

With the completion of the acquisition of Shoppers Drug Mart in the second quarter of 2014, the Company's results include the consolidation of Shoppers Drug Mart from the date of acquisition. The Shoppers Drug Mart assets were 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 is being recognized in cost of merchandise inventories from the date of acquisition to the end of 2014, with a resulting negative impact on gross profit. In the third quarter of 2014, $107 million and year-to-date $729 million of the fair value increment was recognized from inventory sold. The remaining inventory fair value adjustment of $69 million will be recognized in the fourth quarter of 2014 as the inventory is sold; and
- a $6 billion increase for the acquisition of definite life intangible assets, which is being amortized over their estimated useful lives. In the third quarter of 2014, $168 million and year-to-date $293 million of related amortization was recognized in operating income. Annual amortization of approximately $550 million associated with these intangibles will be recognized over the next ten years and decreasing thereafter.

With the upgrade of its IT infrastructure, the Company will implement the IT system in substantially all of its corporate grocery stores by the end of 2014. The implementation of a perpetual inventory system, combined with visibility to integrated costing information provided by the new IT systems, will enable the Company to estimate the cost of inventory using a more precise system-generated average cost. By the second quarter of 2014, a sufficient number of stores had been converted to allow the Company to record the impact of the inventory measurement and other conversion differences associated with implementation of a perpetual inventory system for the corporate grocery stores. In the third quarter of 2014, there was no change to the estimated $190 million decrease in the value of inventory recognized in gross profit in the second quarter of 2014. As the Company completes the system conversion, further adjustments, if necessary, consistent with those in the second quarter of 2014 may be recorded.

During the third quarter of 2014, the Company recorded $46 million (2013 – $3 million) in restructuring and reorganization costs primarily associated with the reduction of corporate and store-support positions, the departure of certain executives and the realignment of certain of the Company's central office functions.

In the third quarter of 2014, the Company has also recognized a net gain of $2 million related to store and pharmacy divestitures required by the Competition Bureau as a result of the acquisition of Shoppers Drug Mart. As a result, year-to-date Shoppers Drug Mart acquisition-related costs net of divestitures gain, of $58 million, were recognized in operating income.

In the third quarter of 2014, the Company recorded a $4 million charge and year-to-date an $18 million charge in net interest and other financing charges related to the accelerated amortization of deferred financing costs as a result of the repayment of $350 million of the term loan facility in the third quarter of 2014 and $1.95 billion year-to-date. The Company may incur further accelerated amortization of deferred financing costs should the Company make significant one-time repayments on its term loan facility entered into in connection with the acquisition of Shoppers Drug Mart.

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 38. The Company does not anticipate any significant additional costs related to the acquisition of Shoppers Drug Mart to be incurred, other than in relation to the remaining store divestitures.

During the third quarter of 2014 and year-to-date, the Company realized approximately $44 million and $52 million, respectively, of net synergies associated with the acquisition of Shoppers Drug Mart, primarily in cost of goods sold.

The Company's third quarter and year-to-date 2014 results also included a charge of $7 million and $34 million (2013 – $8 million and $20 million), respectively, related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements.

Revenue Revenue increased by $3,590 million compared to the third quarter of 2013 and increased by $6,467 million year-to-date compared to the same period in 2013, primarily due to Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, consolidated revenue increased by 2.0% compared to the third quarter of 2013, primarily due to an increase in the Company's Retail segment, slightly offset by a decrease in revenue in the Financial Services segment. Year-to-date, consolidated revenue increased by 1.9% due to the increases in the Company's Retail, Financial Services and Choice Properties segments.

EBITDA(2) EBITDA(2) increased by $206 million compared to the third quarter of 2013, primarily driven by Shoppers Drug Mart. EBITDA(2) was also positively impacted by the net gain on store and pharmacy divestitures related to the acquisition of Shoppers Drug Mart ($2 million) and negatively impacted by the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold ($107 million), increased restructuring costs ($43 million), increased fixed asset and other related impairments ($6 million) and a fair value adjustment on Shoppers Drug Mart's equity-based compensation liability ($5 million).

Adjusted EBITDA(2) increased by $363 million compared to the third quarter of 2013, primarily driven by Shoppers Drug Mart. Adjusted EBITDA margin(2) was 7.4% for the third quarter of 2014 compared to 6.4% in the same quarter in 2013. Excluding the impact of Shoppers Drug Mart, adjusted EBITDA(2) increased by $8 million compared to the third quarter of 2013, driven by an increase in adjusted EBITDA(2) in the Company's Retail segment. Excluding the impact of Shoppers Drug Mart, adjusted EBITDA margin(2) was 6.3% compared to 6.4% in the same quarter in 2013.

Year-to-date EBITDA(2) decreased by $419 million compared to 2013 and was negatively impacted by the charge related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system ($190 million), the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold ($729 million), the costs related to the acquisition of Shoppers Drug Mart net of divestitures ($58 million), increased restructuring costs ($43 million) and a gain related to defined benefit plan amendments recorded in the first quarter of 2013 ($51 million).

Year-to-date adjusted EBITDA(2) increased by $669 million compared to 2013, primarily driven by the increase in the Retail segment's adjusted EBITDA(2) and included $636 million of adjusted EBITDA(2) related to Shoppers Drug Mart. Adjusted EBITDA margin(2) was 7.3% year-to-date compared to 6.5% in the same period in 2013. Excluding the impact of Shoppers Drug Mart, year-to-date adjusted EBITDA(2) increased by $33 million, or 2.0%, compared to 2013, primarily driven by an increase in adjusted EBITDA(2) in the Choice Properties and Financial Services segments. The Retail segment decreased by $2 million and included a charge of $34 million (2013 – $20 million) related to the transition of certain grocery stores to more cost effective operating terms under collective agreements. Excluding the impact of Shoppers Drug Mart, year-to-date adjusted EBITDA margin(2) was 6.5%, flat compared to the same period in 2013.

Operating Income Operating income decreased by $40 million compared to the third quarter of 2013, primarily driven by Shoppers Drug Mart. Operating income was negatively impacted by the amortization of intangible assets of $168 million related to the acquisition of Shoppers Drug Mart and was also impacted by the net factors related to EBITDA(2) described above. Adjusted operating income(2) increased by $285 million compared to the third quarter of 2013, primarily driven by Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, adjusted operating income(2) increased by $10 million and was positively impacted by an increase in adjusted EBITDA(2) in the Company's Retail segment and a decrease in depreciation and amortization(2) of $2 million.

Year-to-date operating income decreased by $870 million compared to 2013. Operating income was negatively impacted by the amortization of intangible assets of $293 million related to the acquisition of Shoppers Drug Mart and by the net factors impacting year-to-date EBITDA(2) above. Year-to-date adjusted operating income(2) increased by $511 million compared to 2013, primarily driven by Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, adjusted operating income(2) increased by $17 million and was positively impacted by an increase described in year-to-date adjusted EBITDA(2) above, partially offset by the incremental increase in year-to-date depreciation and amortization(2) of $16 million.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges decreased by $21 million compared to the third quarter of 2013. Excluding the impacts described below, net interest expense and other financing charges increased by $63 million, driven by higher interest on long term debt, primarily as a result of debt incurred to finance the acquisition of Shoppers Drug Mart. In addition to the above, net interest expense and other financing charges were impacted by the following:

- a favourable $16 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;
- Choice Properties' initial public offering ("IPO") transaction costs of $43 million, incurred in the third quarter of 2013;
- early debt settlement costs of $18 million, incurred in the third quarter of 2013; and
- Shoppers Drug Mart acquisition-related costs of $11 million incurred in the third quarter of 2013.

These impacts were partially offset by:

- a $4 million charge related to the accelerated amortization of deferred financing costs due to the repayment in the third quarter of 2014 of $350 million of the term loan facility used to acquire Shoppers Drug Mart.

Year-to-date net interest expense and other financing charges increased by $88 million to $415 million compared to $327 million in 2013. Excluding the impacts described below, year-to-date net interest expense and other financing charges increased by $123 million, driven primarily by higher interest on long term debt, primarily as a result of debt incurred to finance the acquisition of Shoppers Drug Mart, and distributions paid by Choice Properties on its Units.

In addition to the above, net interest expense and other financing charges were impacted by the following:

- an $18 million charge related to the accelerated amortization of deferred financing costs;
- incremental Shoppers Drug Mart related costs of $4 million related to the financing of the acquisition; and
- a lower gain of $4 million in 2014 related to the fair value adjustment on the Trust Unit Liability.

The following non-recurring charges were incurred in 2013:

- Choice Properties IPO transaction costs of $43 million; and
- early debt settlement costs of $18 million.

Income Taxes Income tax expense was $43 million for the third quarter of 2014 compared to $54 million for the third quarter of 2013. The effective tax rate for the third quarter of 2014 was 23.2% compared to 26.5% for the third quarter of 2013. The decrease in the effective tax rate was primarily attributable to a decrease in certain non-deductible items. The effective income tax rate on adjusted net earnings(2) was 25.8% (2013 – 26.3%). The decrease in the effective income tax rate on adjusted net earnings(2) was primarily attributable to a decrease in certain non-deductible items.

Year-to-date tax recovery was $66 million which resulted in a tax recovery rate of 25.4%. Income tax expense for the same period in 2013 was $185 million and the effective income tax rate was 26.5%. The decrease in the effective tax rate compared to 2013 was primarily attributable to an increase in certain non-deductible amounts (including acquisition costs). The effective income tax rate on adjusted net earnings(2) was 25.7% (2013 – 26.4%). The decrease in the effective income tax rate on adjusted net earnings(2) was primarily attributable to a reduction in the blended statutory tax rate.

In 2012, the Company received indication from the Canada Revenue Agency (the "CRA") that the CRA intends to proceed with reassessments of the tax treatment of the Company's wholly-owned foreign subsidiary, Glenhuron Bank Limited ("Glenhuron"). The CRA's position is 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.

If the CRA were to prevail in all of these reassessments, which the Company believes would be unlikely, the estimated total tax and interest would be approximately $440 million based on the CRA's assertion of the required income inclusion in respect of the 2000 to 2010 taxation years. The amount alleged by the CRA to be owing will increase as interest accrues. The Company believes it is likely that the CRA will issue reassessments for 2011 to 2013 on the same or similar basis. No amount for any reassessments has been provided for in the Company's financial statements.

The Company strongly disagrees with the CRA's position and intends to vigorously defend its position. Based on recent correspondence, the Company expects to receive reassessments from the CRA sometime in the next two quarters and will appeal reassessments as and when they are received. The appeal process will require the Company to make cash payments or provide other forms of security on a portion of the amount alleged by the CRA to be owing in order to dispute the reassessments. If the Company is successful in defending its position, in whole or in part, some or all of the cash payments or security would be returned to the Company.

Net Earnings Net earnings decreased by $8 million compared to the third quarter of 2013, primarily driven by the decrease in operating income, largely offset by the decrease in net interest expense and other financing charges and by the decrease in income taxes as described above. Adjusted net earnings[(2)] increased by $166 million to $371 million compared to the third quarter of 2013, primarily driven by higher adjusted operating income[(2)], mainly as a result of Shoppers Drug Mart, partially offset by higher net interest and other financing charges after excluding certain items described above (see Non-GAAP Financial Measures beginning on page 38), and the increase in income tax expense on adjusted net earnings[(2)].

Year-to-date net earnings for the third quarter of 2014 decreased by $707 million compared to the same period in 2013, primarily driven by the decrease in year-to-date operating income described above and the increase in net interest expense and other financing charges, partially offset by the income tax recovery. Year-to-date adjusted net earnings[(2)] increased by $293 million compared to the same period in 2013, primarily driven by the increase in adjusted operating income[(2)], mainly as a result of Shoppers Drug Mart, partially offset by the increase in net interest and other financing charges after excluding certain items described above and the increase in income tax expense.

Basic Net Earnings (Loss) Per Common Share Basic net earnings per common share were $0.34 in the third quarter of 2014 compared to basic net earnings per common share of $0.53 in the third quarter of 2013. Adjusted basic net earnings per common share[(2)] was $0.90 in the third quarter of 2014 compared to $0.73 in the third quarter of 2013. This increase was primarily due to the increase in adjusted net earnings[(2)] as described above, partially offset by the dilutive effect of the 119.5 million common shares issued as partial consideration for the acquisition of Shoppers Drug Mart.

On a year-to-date basis, the basic net loss per common share was $0.52 compared to basic net earnings per common share of $1.82 in the same period in 2013. Year-to-date adjusted basic net earnings per common share[(2)] was $2.24 compared to $1.90 in 2013, primarily due to the increase in adjusted net earnings[(2)] 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 October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014** **(16 weeks)**	2013(4) (16 weeks)	$ Change	% Change	**2014** **(40 weeks)**	2013(4) (40 weeks)	$ Change	% Change
Sales	**$ 13,375**	$ 9,772	$ 3,603	36.9 %	**$ 30,567**	$ 24,181	$ 6,386	26.4 %
Gross profit	**3,366**	2,098	1,268	60.4 %	**6,809**	5,336	1,473	27.6 %
Adjusted gross profit(2)	**3,473**	2,098	1,375	65.5 %	**7,728**	5,336	2,392	44.8 %
EBITDA(2)	**790**	585	205	35.0 %	**1,103**	1,546	(443)	(28.7)%
Adjusted EBITDA(2)	**954**	591	363	61.4 %	**2,141**	1,507	634	42.1 %
Operating income	**294**	336	(42)	(12.5)%	**38**	928	(890)	(95.9)%
Adjusted operating income(2)	**626**	342	284	83.0 %	**1,369**	889	480	54.0 %

For the periods ended October 4, 2014 and October 5, 2013 (unaudited)	**2014** **(16 weeks)**	2013(4) (16 weeks)	**2014** **(40 weeks)**	2013(4) (40 weeks)
Same-store sales growth(i)	**2.6%**	0.4%	**1.9%**	1.3%
Adjusted gross profit %(2)	**26.0%**	21.5%	**25.3%**	22.1%
Adjusted EBITDA margin(2)	**7.1%**	6.0%	**7.0%**	6.2%
Adjusted operating margin(2)	**4.7%**	3.5%	**4.5%**	3.7%

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

Except as noted, 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 25 of the Company's third quarter 2014 News Release.

Sales

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014** **(16 weeks)**	2013(4) (16 weeks)	$ Change	% Change	**2014** **(40 weeks)**	2013(4) (40 weeks)	$ Change	% Change
Retail sales	**$ 13,375**	$ 9,772	$ 3,603	36.9%	**$ 30,567**	$ 24,181	$ 6,386	26.4%
Shoppers Drug Mart	**3,387**				**5,996**			
Excluding Shoppers Drug Mart	**$ 9,988**	$ 9,772	$ 216	2.2%	**$ 24,571**	$ 24,181	$ 390	1.6%

In the third quarter of 2014, the increase in Retail sales of $3,603 million, or 36.9%, over the same period in the prior year included $3,387 million of sales related to Shoppers Drug Mart. Excluding Shoppers Drug Mart, Retail sales increased by $216 million, or 2.2%, compared to the same period in the prior year, as a result of the following factors:

- Same-store sales growth was 2.6% (2013 – 0.4%) for the quarter and growth, excluding gas bar, was 2.7% (2013 – 0.1%);
- Sales growth in food was moderate;
- Sales in drugstore were flat;
- Sales growth in gas bar was moderate;
- Sales in general merchandise, excluding apparel, were flat;
- Sales growth in retail apparel was modest, while international 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 2.8% (2013 – 0.9%) 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

- 18 corporate and franchise stores were opened and 10 corporate and franchise stores were closed in the last 12 months with an additional two franchise grocery stores divested as a result of an agreement with the Competition Bureau related to the acquisition of Shoppers Drug Mart, resulting in flat square footage growth.

From the acquisition date, Shoppers Drug Mart opened nine new drug stores and closed eight drug stores with an additional two drug stores divested as a result of an agreement with the Competition Bureau related to the Company's acquisition of Shoppers Drug Mart. As a result, net square footage increased by 0.1 million square feet, or 0.4%.

On a year-to-date basis, sales increased by $6,386 million, or 26.4%, compared to the same period in 2013 and included $5,996 million related to Shoppers Drug Mart. Excluding Shoppers Drug Mart, year-to-date sales increased by $390 million, or 1.6% compared to the same period in the prior year. Year-to-date same-store sales growth excluding Shoppers Drug Mart was 1.9% (2013 – 1.3%) and growth, excluding gas bar, was 1.8% (2013 – 1.2%).

Gross Profit

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014 (16 weeks)**	2013(4) (16 weeks)	$ Change	% Change	**2014 (40 weeks)**	2013(4) (40 weeks)	$ Change	% Change
Retail gross profit	**$ 3,366**	$ 2,098	$ 1,268	60.4%	**$ 6,809**	$ 5,336	$ 1,473	27.6%
Adjustments(2)	**107**	—			**919**	—		
Adjusted Retail gross profit(2)	**$ 3,473**	$ 2,098	$ 1,375	65.5%	**$ 7,728**	$ 5,336	$ 2,392	44.8%
Adjusted gross profit %(2)	**26.0%**	21.5%			**25.3%**	22.1%		
Shoppers Drug Mart	**$ 1,323**				**$ 2,322**			
Excluding Shoppers Drug Mart	**$ 2,150**	$ 2,098	$ 52	2.5%	**$ 5,406**	$ 5,336	$ 70	1.3%
Adjusted gross profit %(2)	**21.5%**	21.5%			**22.0%**	22.1%		

In the third quarter of 2014, gross profit increased by $1,268 million compared to the same period in 2013, primarily due to Shoppers Drug Mart and was negatively impacted by the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold.

In the third quarter of 2014, adjusted gross profit(2) increased by $1,375 million and included $1,323 million of adjusted gross profit(2) related to Shoppers Drug Mart. Adjusted gross profit percentage(2) was 26.0% compared to 21.5% in the third quarter of 2013. Excluding Shoppers Drug Mart, adjusted gross profit percentage(2) was 21.5%, flat compared to the same period last year. While adjusted gross profit percentage(2) was flat, retail margins decreased, driven by inflationary pressures, and shrink was higher due to continued investments in fresh assortment. Synergies and lower transportation costs fully offset these decreases. Excluding Shoppers Drug Mart, adjusted gross profit(2) increased by $52 million, or 2.5%, compared to the same period in 2013, driven by higher sales.

Year-to-date gross profit increased by $1,473 million compared to the same period in 2013 primarily due to Shoppers Drug Mart and included a charge related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system and the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold.

Year-to-date adjusted gross profit(2) increased by $2,392 million and included $2,322 million of adjusted gross profit(2) related to Shoppers Drug Mart. Adjusted gross profit percentage(2) was 25.3% compared to 22.1% in the same period of 2013. Excluding the impact of Shoppers Drug Mart, adjusted gross profit percentage(2) decreased by 10 basis points to 22.0%. The decrease in adjusted gross profit percentage(2) was primarily driven by a decrease in retail margins and higher shrink due to investments in fresh assortment, partially offset by synergies. Excluding Shoppers Drug Mart, adjusted gross profit(2) increased by $70 million, or 1.3%, compared to 2013 as a result of higher sales, partially offset by the decline in adjusted gross profit percentage(2).

EBITDA(2)

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (16 weeks)	2013(4) (16 weeks)	$ Change	% Change	2014 (40 weeks)	2013(4) (40 weeks)	$ Change	% Change
Retail EBITDA(2)	**$ 790**	$ 585	$ 205	35.0%	**$ 1,103**	$ 1,546	$ (443)	(28.7)%
Adjustments(2)	**164**	6			**1,038**	(39)		
Adjusted Retail EBITDA(2)	**$ 954**	$ 591	$ 363	61.4%	**$ 2,141**	$ 1,507	$ 634	42.1 %
Adjusted EBITDA margin(2)	**7.1%**	6.0%			**7.0%**	6.2%		
Shoppers Drug Mart	**355**				**636**			
Excluding Shoppers Drug Mart	**$ 599**	$ 591	$ 8	1.4%	**$ 1,505**	$ 1,507	$ (2)	(0.1)%
Adjusted EBITDA margin(2)	**6.0%**	6.0%			**6.1%**	6.2%		

EBITDA(2) increased by $205 million compared to the third quarter of 2013 primarily due to Shoppers Drug Mart and was positively impacted by the net gain on store and pharmacy divestitures related to Shoppers Drug Mart, offset by the recognition of the $107 million fair value increment on the acquired Shoppers Drug Mart inventory sold, increased restructuring costs, increased fixed asset and other related impairments, and a fair value adjustment on Shoppers Drug Mart's equity-based compensation liability.

Adjusted EBITDA(2) increased by $363 million compared to the third quarter of 2013 and included $355 million of adjusted EBITDA(2) related to Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, adjusted EBITDA(2) increased by $8 million. The increase was primarily driven by higher adjusted gross profit(2) as discussed above, partially offset by costs related to certain of the Company's emerging businesses, synergy related costs, higher marketing investments, and an increase in other operating costs. For the third quarter of 2014, adjusted EBITDA margin(2) was 7.1% compared to 6.0% in the same period in 2013, primarily driven by the inclusion of Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, adjusted EBITDA margin(2) was flat at 6.0%.

Year-to-date EBITDA(2) decreased by $443 million compared to 2013 primarily due to Shoppers Drug Mart 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 the implementation of a perpetual inventory system, costs related to the acquisition of Shoppers Drug Mart, net of the divestitures gain, increased restructuring costs, the fair value adjustment on Shoppers Drug Mart's equity-based compensation liability and a gain related to defined benefit plan amendments recorded in the first quarter of 2013.

Year-to-date adjusted EBITDA(2) increased by $634 million compared to 2013 and included $636 million of adjusted EBITDA(2) related to Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, year-to-date adjusted EBITDA(2) decreased by $2 million, including 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 increase was primarily driven by higher adjusted gross profit(2) and supply chain and labour efficiencies, partially offset by costs related to the Company's emerging businesses, investments in the Company's franchise business, lower foreign exchange gains, synergy related costs and increased other operating costs.

Year-to-date adjusted EBITDA margin(2) was 7.0% compared to 6.2% in the same period in 2013, primarily driven by the inclusion of Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, adjusted EBITDA margin(2) was 6.1% compared to 6.2% in the third quarter of 2013.

Operating Income

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014 (16 weeks)**	2013[4] (16 weeks)	$ Change	% Change	**2014 (40 weeks)**	2013[4] (40 weeks)	$ Change	% Change
Retail operating income	**$ 294**	$ 336	$ (42)	(12.5)%	**$ 38**	$ 928	$ (890)	(95.9)%
Adjustments[2]	**332**	6			**1,331**	(39)		
Adjusted Retail operating income[2]	**$ 626**	$ 342	$ 284	83.0 %	**$ 1,369**	$ 889	$ 480	54.0 %
Adjusted operating margin[2]	**4.7%**	3.5%			**4.5%**	3.7%		
Shoppers Drug Mart	**275**				**494**			
Excluding Shoppers Drug Mart	**$ 351**	$ 342	$ 9	2.6 %	**$ 875**	$ 889	$ (14)	(1.6)%
Adjusted operating margin[2]	**3.5%**	3.5%			**3.6%**	3.7%		

Operating income decreased by $42 million compared to the third quarter of 2013, primarily as a result of Shoppers Drug Mart, including the negative impact of the amortization of intangible assets recorded on the acquisition and the increase in retail depreciation and amortization, offset by the increase in EBITDA[2] described above.

Adjusted operating income[2] increased by $284 million compared to the third quarter of 2013, and included $275 million of adjusted operating income[2] related to Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, adjusted operating income[2] increased by $9 million, driven by the increase in adjusted EBITDA[2] described above and a decrease in retail depreciation and amortization[2] of $1 million.

Year-to-date operating income decreased by $890 million compared to 2013 primarily due to Shoppers Drug Mart and was negatively impacted by the amortization of intangible assets recorded on the acquisition and by the decrease above in relation to year-to-date EBITDA[2].

Year-to-date adjusted operating income[2] increased by $480 million compared to 2013, and included $494 million of adjusted operating income[2] related to Shoppers Drug Mart. Excluding the impact of Shoppers Drug Mart, adjusted operating income[2] decreased by $14 million, driven by the increase in retail depreciation and amortization[2] of $12 million and by the decrease in year-to-date adjusted EBITDA[2] described above.

Financial Services Segment

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014(i) (16 weeks)**	2013 (16 weeks)	$ Change	% Change	**2014(i) (40 weeks)**	2013 (40 weeks)	$ Change	% Change
Revenue	**$ 207**	$ 222	$ (15)	(6.8)%	**$ 579**	$ 535	$ 44	8.2%
Operating income	**41**	41	—	— %	**115**	99	16	16.2%
Earnings before income taxes	**27**	27	—	— %	**76**	64	12	18.8%

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**As at October 4, 2014**	As at October 5, 2013	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,512**	$ 2,297	$ 215	9.4%
Credit card receivables	**2,549**	2,430	119	4.9%
Allowance for credit card receivables	**51**	45	6	13.3%
Annualized yield on average quarterly gross credit card receivables	**13.8%**	13.5%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.4%**	4.2%		

(i) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with the Financial Services' fiscal calendar. Adjustments to October 4, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 38 of this report. This represents a change from the prior year whereby results were presented consistent with the Company's reporting calendar. The results for 2013 have not been restated.

Revenue Revenue for the third quarter of 2014 decreased by 6.8% compared to the third quarter of 2013. This decrease was primarily driven by the realignment of reporting periods for the second and third quarters of 2014 to reflect the Financial Services' fiscal quarters (see footnote (i) above), partially offset by higher interest income and interchange income as a result of growth in the credit card portfolio.

Year-to-date, revenue increased by 8.2% 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 were flat compared to the third quarter of 2013, reflecting the lower quarterly revenue described above as a result of the realignment between the second and third quarter of 2014. Despite the timing difference, lower revenue was offset by lower marketing and customer acquisition expenses and lower costs associated with the Financial Services' loyalty program.

On a year-to-date basis operating income and earnings before income taxes increased by $16 million and $12 million, respectively, compared to 2013. These increases were mainly attributable to higher year-to-date revenue described above, partially offset by higher credit losses from increased credit card receivable balances and higher operating costs as a result of an increase in the active customer base.

Credit Card Receivables As at October 4, 2014, credit card receivables were $2,549 million, an increase of $119 million compared to October 5, 2013. This increase was primarily driven by growth in the active customer base as a result of continued investments in customer acquisitions and marketing initiatives. As at October 4, 2014, the allowance for credit card receivables was $51 million, an increase of $6 million compared to October 5, 2013, primarily due to growth in the credit card portfolio.

Choice Properties Segment

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014(i) (16 weeks)	2013(ii) (16 weeks)	$ Change	% Change	2014(i) (40 weeks)	2013(ii) (40 weeks)	$ Change	% Change
Revenue	**$ 171**	$ 154	$ 17	11.0 %	**$ 508**	$ 154	$ 354	229.9%
Operating income	**105**	184	(79)	(42.9)%	**345**	184	161	87.5%
Net interest expense and other financing charges	**(18)**	110	(128)	(116.4)%	**232**	110	122	110.9%

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014(i) (16 weeks)	2013(ii) (16 weeks)	$ Change	% Change	2014(i) (40 weeks)	2013(ii) (40 weeks)	$ Change	% Change
Net operating income(2)	**$ 119**	$ 108	$ 11	10.2%	**$ 353**	$ 108	$ 245	226.9%
Funds from operations(2)	**86**	76	10	13.2%	**207**	76	131	172.4%
Adjusted funds from operations(2)	**73**	66	7	10.6%	**211**	66	145	219.7%
Adjusted funds from operations per unit - diluted(2) ($)	**0.19**	0.18			**0.56**	0.18		
Adjusted funds from operations payout ratio(2)	**86.0%**	85.0%			**87.4%**	85.0%		

(i) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to October 4, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures on page 38 of this report.

(ii) Based on operations beginning July 5, 2013.

Revenue Revenue for the third quarter of 2014 increased by 11.0% compared to the third quarter of 2013, and included $154 million (2013 – $139 million) generated from tenants within the Retail segment. The increase was primarily driven by revenue from properties acquired since the IPO and the inclusion of a full quarter of operations in 2014 compared to a partial quarter included in 2013.

Year-to-date, revenue increased by 229.9% and included $456 million (2013 – $139 million) which was generated from tenants within the Retail segment. The increase was primarily driven by three full quarters of operations in 2014 compared to only one quarter in 2013.

Operating Income Operating income decreased by $79 million compared to the third quarter of 2013 and was negatively impacted by a $91 million year-over-year unfavourable fair value adjustment on investment properties. The fair value adjustment on investment properties is eliminated on consolidation.

Year-to-date, operating income increased by $161 million compared to 2013. The year-to-date increase was mainly attributable to three full quarters of operations in 2014 compared to only one quarter in 2013, partially offset by a $91 million year-over-year unfavourable fair value adjustment on investment properties.

Net Operating Income(2) Net operating income(2) increased by $11 million compared to the third quarter of 2013 and $245 million year-to-date. The increases in net operating income(2) were primarily driven by operating results from properties acquired since the IPO and a full quarter of operations in 2014. The year-to-date increase was mainly attributable to three full quarters of operations in 2014 compared to only one quarter in 2013.

Funds from Operations(2) and Adjusted Funds from Operations(2) Funds from operations(2) increased by $10 million compared to the third quarter of 2013. The increase was mainly attributable to an increase in net property income, partially offset by increased interest and other financing charges. Adjusted funds from operations(2) increased by $7 million compared to the third quarter of 2013. The increase was mainly attributable to the factors impacting funds from operations(2) above, partially offset by the increase in sustaining property and leasing capital expenditures, normalized(2).

Year-to-date, funds from operations[2] increased by $131 million mainly attributable to three full quarters of operations in 2014 compared to only one quarter in 2013. Year-to-date adjusted funds from operations[2] increased by $145 million mainly attributable to three full quarters of operations in 2014 compared to only one quarter in 2013.

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.

In the second quarter of 2014, 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.

Subsequent to the end of the quarter, the Company sold 16 properties to Choice Properties for an aggregate price of approximately $212 million. Consideration for the properties included 10,698,143 Class B Limited Partnership units, $96 million in cash and the assumption of a $4 million mortgage by Choice Properties. As of November 11, 2014, the Company's ownership interest in Choice Properties was 82.9%.

Subsequent to the end of the quarter, the Company exercised its option to acquire a warehouse from an unrelated party and entered into a commitment to sell the warehouse to Choice Properties for approximately $82 million. The transaction is expected to close in the first quarter of 2015.

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 (the term loan facility was re-priced to Bankers' Acceptance rate plus 1.45% on July 23, 2014);
- $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 from the date of acquisition 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.

Pursuant to a Consent Agreement reached with the Competition Bureau in the first quarter of 2014, the Company was required to divest 16 Shoppers Drug Mart stores, two of the Company's franchise grocery stores and nine in-store pharmacies.

In the third quarter of 2014, two franchise grocery stores and two Shoppers Drug Mart stores were sold, and the nine in-store pharmacies were licensed to unrelated parties. This resulted in a net gain of $2 million which was recorded in operating income. Subsequent to the end of the third quarter of 2014, the Competition Bureau approved the sale of an additional ten Shoppers Drug Mart stores of which four sales have been completed.

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 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 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.

Loblaw expects to achieve annualized synergies of $300 million in the third full year following the close of the acquisition of Shoppers Drug Mart (net of related costs). First year synergies are being generated primarily from improved cost of goods sold and from purchasing efficiencies in goods not for resale. The Company realized net synergies of approximately $44 million in the third quarter of 2014 and year-to-date $52 million associated with the acquisition of Shoppers Drug Mart.

Other Business Matters

Information Technology and Other Systems Implementations As at the end of the third quarter, the Company's new IT system had been implemented in a total of 21 distribution centres and 403 corporate grocery stores. The Company will implement the system in substantially all of its corporate grocery stores by the end of 2014.

Inventory Valuation Prior to the second quarter of 2014, the Company valued its merchandise inventories at the lower of cost and net realizable value and used 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, enables the Company to estimate the cost of inventory using a more precise system-generated average cost.

As at the end of the second quarter of 2014, 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, in the second quarter of 2014, the Company had sufficient knowledge to extrapolate the conversion results over its entire corporate grocery store inventory balances, and 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 the third quarter of 2014, there was no change in the estimate recorded in the second quarter.

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. In the third quarter and year-to-date 2014, the Company incurred charges of $7 million and $34 million, respectively (2013 – $8 million and $20 million, respectively) in selling, general and administrative expenses related to the negotiation of these collective agreements.

Liquidity and Capital Resources

Cash Flows

Major Cash Flow Components

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014 (16 weeks)**	2013 (16 weeks)	$ Change	% Change	**2014 (40 weeks)**	2013 (40 weeks)	$ Change	% Change
Cash flows from (used in):								
Operating activities	**$ 704**	$ 210	$ 494	235.2 %	**$ 1,617**	$ 753	$ 864	114.7 %
Investing activities	**(189)**	(1,943)	1,754	90.3 %	**(5,321)**	(2,310)	(3,011)	(130.3)%
Financing activities	**(716)**	2,395	(3,111)	(129.9)%	**2,420**	1,908	512	26.8 %

Cash Flows from Operating Activities Cash flows from operating activities were $704 million in the third quarter of 2014, an increase of $494 million compared to the third quarter of 2013. The increase in cash flows from operating activities was primarily driven by higher cash earnings, primarily driven by the acquisition of Shoppers Drug Mart, and the change in credit card receivables.

On a year-to-date basis, cash flows from operating activities were $1,617 million compared to $753 million in the same period in 2013. The increase was primarily driven by higher cash earnings, primarily driven by the acquisition of Shoppers Drug Mart, a lower increase in credit card receivables and a decrease in non-cash working capital. The change in non-cash working capital was due to increases in trade payables and other liabilities, partially offset by an increase in inventory.

Cash Flows used in Investing Activities Cash flows used in investing activities were $189 million in the third quarter of 2014, compared to $1,943 million in the third quarter of 2013. The change in cash used in investing activities was primarily driven by an increase in security deposits in the third quarter of 2013 as a result of placing the proceeds of $1.6 billion from the issuance of senior unsecured notes in escrow, to be used to partially fund the acquisition of Shoppers Drug Mart.

On a year-to-date basis, cash flows used in investing activities were $5,321 million compared to $2,310 million in the same period in 2013. The increase in cash flows used in investing activities was primarily due to the acquisition of Shoppers Drug Mart.

Capital Investment and Store Activity

As at or for the periods ended October 4, 2014 and October 5, 2013 (unaudited)	**2014 (40 weeks)**	2013 (40 weeks)	% Change
Capital investment (millions of Canadian dollars)	**$ 638**	$ 561	13.7 %
Corporate square footage (in millions)	**36.9**	37.2	(0.8)%
Franchise square footage (in millions)	**15.3**	14.6	4.8 %
Associate-owned drug store square footage (in millions)	**17.7**	—	100.0 %
Retail square footage (in millions)	**69.9**	51.8	34.9 %
Number of corporate stores(i)	**617**	570	8.2 %
Number of franchise stores	**515**	488	5.5 %
Number of Associate-owned drug stores	**1,308**	—	100.0 %
Total number of stores	**2,440**	1,058	130.6 %
Percentage of corporate real estate owned	**72%**	72%	
Percentage of franchise real estate owned	**45%**	46%	
Percentage of Associate-owned drug store real estate owned	**2%**	—%	
Average store size (square feet)			
Corporate	**59,800**	65,300	(8.4)%
Franchise	**29,700**	29,900	(0.7)%
Associate-owned drug store	**13,500**	—	100.0 %

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

Cash Flows (used in) from Financing Activities During the third quarter of 2014, cash flows used in financing activities were $716 million compared to cash flows from financing activities of $2,395 million in the third quarter of 2013. In the third quarter of 2014, cash flows used in financing activities were primarily driven by the net repayments of long term debt, as well as interest and dividend payments. Cash flows from financing activities in the third quarter of 2013 were primarily driven by net issuance of long term debt and the issuance of Trust Units, partially offset by the repurchase of common shares for cancellation, as well as interest and dividend payments.

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

- Repayments on the term loan facility of $350 million; and
- Drawings on the $500 million senior unsecured committed credit facility ("Choice Properties Credit Facility") of $40 million.

In the same period in 2013, net issuances of long term debt included:

- The issuance of $1.6 billion aggregate principal amount of senior unsecured notes issued to partially fund the acquisition of the outstanding common shares of Shoppers Drug Mart;
- Choice Properties' public offering of $600 million aggregate principal amount of Debentures; and
- The repayment of the Company's remaining USD $150 million private placement ("USPP") note.

On a year-to-date basis, cash flows from financing activities were $2,420 million compared to $1,908 million in the same period in 2013. Cash flows from financing activities in the current year were primarily driven by net issuances of long term debt and 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 interest and dividend payments, 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.

Year-to-date, net issuances of long term debt included:

- Drawings on the term loan facility of $3,500 million and repayments of $1,950 million for a net outstanding amount of $1,550 million;
- The issuance of $1,500 million of replacement notes related to Choice Properties Transferor Notes;
- The issuance of $450 million aggregate principal amount of senior unsecured debentures by Choice Properties;
- The net issuance of $133 million of Guaranteed Investment Certificates ("GICs");
- 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;
- The repayment of the outstanding $478 million balance of the Shoppers Drug Mart revolving bank credit facility; and
- Drawings on Choice Properties Credit Facility of $77 million.

In the same period in 2013, net issuances of long term debt included:

- The issuance of $1.6 billion aggregate principal amount of senior unsecured notes issued to partially fund the acquisition of the outstanding common shares of Shoppers Drug Mart;
- Choice Properties' public offering of $600 million aggregate principal amount of Debentures; and
- The repayment of the Company's remaining USD $300 million USPP note.

Free Cash Flow(2)

For the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014 (16 weeks)**	2013 (16 weeks)	$ Change	% Change	**2014 (40 weeks)**	2013 (40 weeks)	$ Change	% Change
Free cash flow(2)	**$ 216**	$ (5)	$ 221	4,420.0%	**$ 597**	$ 45	$ 552	1,226.7%

For the third quarter of 2014, free cash flow(2) was $216 million compared to negative $5 million in the third quarter of 2013. On a year-to-date basis, free cash flow(2) was $597 million compared to $45 million in the same period in 2013. The increase in free cash flow(2) was primarily due to higher cash flows from operating activities, net of credit card receivables, partially offset by higher interest payments. The higher cash flows from operating activities were primarily due to Shoppers Drug Mart.

Defined Benefit Pension Plan Contributions During the first three quarters of 2014, the Company contributed $40 million (2013 – $85 million) to its registered defined benefit pension plans. The Company expects to make total contributions in 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 Company's 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 MTN 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. The funds are invested in highly liquid marketable short term investments consisting primarily of bankers' acceptances, government treasury bills, bank term deposits, corporate commercial paper and government agency securities. As at October 4, 2014, the Company held $1,035 million of cash and cash equivalents, short term investments and security deposits, a decrease of $3,185 million from October 5, 2013. This decrease was largely driven by the following:

- approximately $6.6 billion used in the acquisition of Shoppers Drug Mart;
- repayment of $1.95 billion of the term loan facility;
- repayment of the outstanding $478 million balance of the Shoppers Drug Mart revolving bank credit facility;
- repayment of $100 million and $350 million of MTNs that matured in 2014; and
- repayment of a $200 million MTN that matured in 2013.

Partially offset by the following:

- $3.5 billion obtained through a term loan facility;
- $1.5 billion from Transferor Notes sold;
- $500 million received in consideration of the issuance of 10.5 million common shares to George Weston Limited;
- the $450 million of senior unsecured debentures issued by Choice Properties in the first quarter of 2014; and
- drawings on Choice Properties Credit Facility of $77 million.

Term Loan Facility On July 23, 2014, the Company reached an agreement to re-price the interest rate on its 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%.

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 to partially repay 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 In the second quarter of 2014, effective on the closing of the acquisition of Shoppers Drug Mart, 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 year and as at the end of the third quarter of 2014. As at the end of the third quarters of 2014 and 2013 and as at December 28, 2013, there were no amounts drawn under the 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 throughout the year and as at the end of the third quarter of 2014. As at October 4, 2014, Choice Properties had drawn $77 million on the Choice Properties Credit Facility. As at October 5, 2013 and December 28, 2013, Choice Properties had not drawn on the Choice Properties Credit Facility.

Associate Guarantee The Company has arranged for its Shoppers Drug Mart 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 October 4, 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 October 4, 2014, Associates had drawn an aggregate amount of $323 million against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's unaudited interim period condensed consolidated balance sheet. As recourse in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

Letter of Credit In the third quarter of 2014, the Company arranged for an irrevocable standby letter of credit from a major Canadian chartered bank on behalf of one of its wholly-owned subsidiaries in the amount of $91 million.

Adjusted Debt[2] The Company's adjusted debt[2] increased significantly as a result of the acquisition of Shoppers Drug Mart. 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 and is on track towards its debt reduction targets by repaying a $350 million MTN at maturity in the second quarter of 2014, and $350 million of the term loan facility in the third quarter of 2014, resulting in an adjusted debt[2] balance of $10.4 billion as at October 4, 2014.

In the second quarter of 2014, the Company 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 October 4, 2014**	As at October 5, 2013
Adjusted debt[2] to rolling year adjusted EBITDA[2]	**3.8x**	3.0x

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 compared to the third quarter of 2013 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, partially offset by the increase in the rolling year adjusted EBITDA[2] as a result of the acquisition of Shoppers Drug Mart. The ratio has improved by 0.6x since the second quarter of 2014, primarily due to the inclusion of Shoppers Drug Mart adjusted EBITDA[2] in the Company's consolidated operating results. 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*® ("*Eagle*") and Other Independent Securitization Trusts, from time to time, depending on PC Bank's financing requirements.

As at October 4, 2014, the Company has arranged letters of credit on behalf of PC Bank, representing 9% (October 5, 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 (October 5, 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.

During the quarter, Moody's placed *Eagle* notes under review for downgrade as a result of a change in the rating methodology used by Moody's for credit card receivables-backed securities. Subsequent to the end of the third quarter of 2014, the Company arranged for additional credit enhancement for *Eagle* in the form of letters of credit issued on behalf of PC Bank. The letters of credit, in the amount of $68 million, will provide an additional 9% credit enhancement on all of the outstanding *Eagle* notes. Subsequent to the end of the third quarter of 2014, Moody's removed the *Eagle* notes from being under review and affirmed its ratings on the senior notes and upgraded the ratings on the subordinated notes.

Subsequent to the end of the third quarter of 2014, the Company arranged an additional $7 million letter of credit on behalf of PC Bank for certain Other Independent Securitization Trusts to a total of $61 million, which represents 10% of the outstanding securitized liability.

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 October 4, 2014 and throughout 2014.

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

In the first quarter of 2014, PC Bank extended the maturity date for certain 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 October 4, 2014, the independent funding trusts had drawn $487 million (October 5, 2013 – $460 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 October 4, 2014, the Company had provided a letter of credit in the amount of $50 million (October 5, 2013 and December 28, 2013 – $48 million).

Trust Unit Liability Units held by unitholders other than the Company are presented as a liability on the Company's consolidated balance sheet as the Units are redeemable for cash at the option of the holder, subject to certain restrictions. As at the end of the third quarter of 2014, the Company held an 82.5% ownership interest in Choice Properties.

As at October 4, 2014, the fair value of the Trust Unit Liability was $697 million (October 5, 2013 – $653 million; December 28, 2013 – $688 million). In the third quarter of 2014 and year-to-date, the Company recorded fair value gains of $23 million (2013 – $7 million) and $3 million (2013 – $7 million), respectively, in net interest expense and other financing charges related to Choice Properties' Units. Choice Properties issued 403,382 Units in the third quarter of 2014 (2013 – nil) and 1,125,745 Units year-to-date (2013 – nil), to eligible unitholders under its distribution reinvestment plan. The issuances resulted in a $5 million increase in the quarter (2013 – nil) to the Trust Unit Liability and $12 million year-to-date (2013 – nil).

Guaranteed Investment Certificates The following table summarizes PC Bank's GICs issuance activity, before commissions, for the third quarter and year-to-date for 2014 and 2013:

(millions of Canadian dollars) (unaudited)	**October 4, 2014 (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Balance, beginning of period	**$ 528**	$ 273	**$ 430**	$ 303
GICs issued	**49**	98	**185**	98
GICs matured	**(14)**	(6)	**(52)**	(36)
Balance, end of period	**$ 563**	$ 365	**$ 563**	$ 365

As at October 4, 2014, $27 million in GICs were recorded as long term debt due within one year (October 5, 2013 – $53 million; December 28, 2013 – $52 million).

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

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

In 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 its credit rating of the outstanding Shoppers Drug Mart MTNs to BBB with "Stable" outlook and DBRS changed its rating to BBB with a "Stable" trend, in each case consistent with the credit ratings of the Company. Subsequent to the end of the third quarter of 2014, Dominion Bond Rating Service reaffirmed Loblaw's credit ratings and trends.

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

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

Share Capital

(number of common shares) (unaudited)	**October 4, 2014 (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Issued and outstanding, beginning of period	**412,743,370**	283,256,354	**282,311,573**	281,680,157
Issued for settlement of stock options	**1,303,873**	336,304	**3,012,941**	1,912,501
Issued for acquisition of Shoppers Drug Mart[(i)]	**—**	—	**119,471,382**	—
Issued to controlling shareholder[(i)]	**—**	—	**10,515,247**	—
Purchased for cancellation	**(1,600,300)**	(1,500,000)	**(2,864,200)**	(1,500,000)
Issued and outstanding, end of period	**412,446,943**	282,092,658	**412,446,943**	282,092,658
Shares held in trust, beginning of period	**(820,379)**	(1,101,932)	**(1,067,323)**	—
Purchased for future settlement of RSUs and PSUs	**—**	—	**—**	(1,103,500)
Released for settlement of RSUs and PSUs	**221,907**	7,088	**468,851**	8,656
Shares held in trust, end of period	**(598,472)**	(1,094,844)	**(598,472)**	(1,094,844)
Issued and outstanding net of shares held in trust, end of period	**411,848,471**	280,997,814	**411,848,471**	280,997,814
Weighted average outstanding, net of shares held in trust	**412,478,762**	281,201,718	**370,316,810**	281,120,552

(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 third quarter and year-to-date for 2014 and 2013:

(unaudited)	**October 4, 2014[(i)] (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Dividends declared per share ($):				
Common share	**$ 0.245**	$ 0.240	**$ 0.730**	$ 0.700
Second Preferred Share, Series A	**$ 0.37**	$ 0.37	**$ 1.12**	$ 1.12

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

Subsequent to the end of the third quarter of 2014, the Board of Directors declared a quarterly dividend of $0.245 per common share, payable December 30, 2014, and declared a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable January 31, 2015. 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 The activity under the Company's Normal Course Issuer Bid ("NCIB") is summarized as follows:

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**October 4, 2014 (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Shares repurchased under the NCIB for cancellation (number of shares)	**(1,600,300)**	(1,500,000)	**(2,864,200)**	(1,500,000)
Cash consideration paid	**$ 90**	$ 73	**$ 149**	$ 73

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

In the second quarter of 2014, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or to 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 in connection with the acquisition of Shoppers Drug Mart. In accordance with the rules and by-laws of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares.

Financial Derivative Instruments

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

Cross Currency Swaps As at October 5, 2013, 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 its USD $150 million USPP swap that matured on May 29, 2013. In the third quarter of 2013, the Company settled its remaining USD $150 million USPP cross currency swap in advance of its maturity on May 29, 2015. This settlement occurred in conjunction with the early payment of the underlying USD $150 million USPP note.

Interest Rate Swaps In the second quarter of 2013, the Company settled its notional $100 million interest rate swaps. In the third quarter of 2013, the Company settled its remaining notional $50 million interest rate swaps. The Company recognized a $2 million fair value gain in operating income in the third quarter of 2013 and $5 million year-to-date related to these swaps.

Equity Forward Contracts In 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. Fiscal years 2013 and 2012 were 52-week fiscal years and 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

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
(millions of Canadian dollars except where otherwise indicated) (unaudited)	**2014 (16 weeks)**	**2013(ii) (16 weeks)**	2014(ii) (12 weeks)	2013(ii) (12 weeks)	2014(ii) (12 weeks)	2013(ii) (12 weeks)	2013(ii) (12 weeks)	2012(i, ii) (12 weeks)
Revenue	**$ 13,599**	**$ 10,009**	$ 10,307	$ 7,520	$ 7,292	$ 7,202	$ 7,640	$ 7,465
Net earnings (loss)	**142**	**150**	(456)	177	120	186	114	139
Net earnings (loss) per common								
Basic ($)	**$ 0.34**	**$ 0.53**	$ (1.13)	$ 0.63	$ 0.43	$ 0.66	$ 0.41	$ 0.49
Diluted ($)	**$ 0.34**	**$ 0.53**	$ (1.13)	$ 0.62	$ 0.42	$ 0.65	$ 0.40	$ 0.46
Average national food price inflation (as measured by CPI)	**2.8%**	**0.9%**	2.5%	1.5%	1.2%	1.4%	0.9%	1.5%
Retail same-store sales growth	**2.6%**	**0.4%**	1.8%	1.1%	0.9%	2.8%	0.6%	0.0%

(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 0.6 million square feet to 51.8 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:

- The store and pharmacy divestitures related to the acquisition of Shoppers Drug Mart beginning in the third quarter of 2014;
- The fair value adjustment on Shoppers Drug Mart's equity-based compensation liability beginning in the third quarter of 2014;
- Restructuring costs, including the costs incurred in the third quarter of 2014 and the fourth quarters of 2012 and 2013, primarily associated with reducing corporate and store-support, and administration positions;
- Recognition of the fair value increment on inventory sold that was 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;
- A 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;
- A charge related to the accelerated amortization of deferred financing costs beginning 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 on the Trust Unit Liability beginning in the third quarter of 2013;
- A gain related to defined benefit plan amendments incurred in the first quarter of 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 There were no changes in the Company's internal control over financial reporting in the third quarter of 2014 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as noted below.

During the third quarter of 2014, the Company continued to successfully implement its new IT system at distribution centres and stores. The implementation 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, the first quarter of 2014 and the second 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 October 4, 2014 was approximately 25 percent of consolidated revenues and approximately 40 percent of consolidated adjusted operating income. Additionally, Shoppers Drug Mart's current assets and current liabilities were approximately 30 percent and 25 percent 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 the Notes to the Company's unaudited interim period condensed consolidated financial statements for the third quarter of 2014.

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.

Inventory Management The Company is continuing to implement its new IT system in its corporate grocery stores and distribution centres. Almost all of the corporate grocery stores and all of the distribution centres are now operating on the new system. As the Company completes its conversion to the new system, it is gaining increased visibility to integrated costing and sales information at store level. With this increasing visibility, the Company will have more precise information to better identify and assess risks relating to inventory management. However, the new system is complex and challenges could arise in managing inventory in the early stages of operation, which could result in shortages of inventory, or excess or obsolete inventory which cannot be sold profitably or increase levels of inventory shrink. Any of these outcomes could negatively affect the financial results of the Company.

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 the CRA intends to proceed with reassessments of the tax treatment of the Company's wholly-owned foreign subsidiary, Glenhuron. The CRA's position is 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.

If the CRA were to prevail in all of these reassessments, which the Company believes would be unlikely, the estimated total tax and interest would be approximately $440 million based on the CRA's assertion of the required income inclusion in respect of the 2000 to 2010 taxation years. The amount alleged by the CRA to be owing will increase as interest accrues. The Company believes it is likely that the CRA will issue reassessments for 2011 to 2013 on the same or similar basis. No amount for any reassessments has been provided for in the Company's financial statements.

The Company strongly disagrees with the CRA's position and intends to vigorously defend its position. Based on recent correspondence, the Company expects to receive reassessments from the CRA sometime in the next two quarters and will appeal reassessments as and when they are received. The appeal process will require the Company to make cash payments or provide other forms of security on a portion of the amount alleged by the CRA to be owing in order to dispute the reassessments. If the Company is successful in defending its position, in whole or in part, some or all of the cash payments or security would be returned to the Company. 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 reputation, results of operations and financial position of the Company in the year(s) of resolution.

Accounting Standards Implemented in 2014 and Changes to Significant Accounting Policies

The Company implemented the amendments to International Accounting Standards ("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.

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 policies of both companies. The Company has implemented the change retrospectively in the second quarter of 2014, as follows:

Condensed Consolidated Statements of Earnings and Comprehensive Income

Increase (Decrease) (millions of Canadian dollars except where otherwise indicated) (unaudited)	October 5, 2013 (16 weeks)	October 5, 2013 (40 weeks)	December 28, 2013 (52 weeks)
Cost of Merchandise Inventories Sold	$ 6	$ (13)	$ 5
Operating Income	$ (6)	$ 13	$ (5)
Earnings Before Income Taxes	$ (6)	$ 13	$ (5)
Income taxes	(2)	3	(2)
Net Earnings	$ (4)	$ 10	$ (3)
Total Comprehensive Income	$ (4)	$ 10	$ (3)
Net Earnings per Common Share ($)			
Basic	$ (0.02)	$ 0.04	$ (0.01)
Diluted	$ (0.01)	$ 0.04	$ (0.01)

Condensed Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars) (unaudited)	As at October 5, 2013	As at December 28, 2013	As at December 30, 2012
Accounts receivable	$ (12)	$ (39)	$ (32)
Inventories	4	13	11
Deferred Income Tax Assets	3	8	6
Shareholders' Equity	$ (5)	$ (18)	$ (15)

Future Accounting Standards

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). The new standard provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting 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.

In July 2014, the IASB issued IFRS 9, "Financial Instruments", replacing IAS 39, "Financial Instruments: Recognition and Measurement." The standard had three main phases: classification and measurement, impairment, and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with the exception of the general hedging phase which is applied prospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Outlook(1)

In the third quarter of 2014, the Company continued to execute on its strategy and delivered solid financial and operational performance in a very competitive trading environment that saw supermarket square footage growth moderate and greater predictability in regulatory drug reform. The Company expects these industry and business trends to continue for the balance of the year. As a result, for 2014 the Company expects its business divisions to achieve financial and operational performance, on an adjusted basis and excluding synergies, in line with 2013 performance trends. The Company also remains on track to achieve $100 million in net synergies in the first twelve months following the acquisition of Shoppers Drug Mart.

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, 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.

As of the third quarter of 2014, the Company no longer excludes Choice Properties' general and administrative costs.

With the acquisition of Shoppers Drug Mart, the Company converted certain Shoppers Drug Mart cash-settled equity-based compensation awards to awards based on the Company's common shares. The Company is exposed to market price fluctuations in its common share price as these awards are settled in cash and the associated liability is recorded at fair value at each reporting date based on the market price of the Company's common shares. The Company excludes the fair value adjustment when calculating adjusted operating income.

As of 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.

As of the first quarter of 2014, the Company no longer excludes the impact of equity-settled equity-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.

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 unaudited interim period condensed consolidated statements of earnings for the 16 and 40 week periods ended October 4, 2014 and October 5, 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 (16 weeks)**	2013[(i)] (16 weeks)	**2014 (40 weeks)**	2013[(i)] (40 weeks)
Retail segment gross profit	**$ 3,366**	$ 2,098	**$ 6,809**	$ 5,336
Add impact of the following:				
Recognition of fair value increment on inventory sold	**107**	—	**729**	—
Charge related to inventory measurement and other conversion differences	**—**	—	**190**	—
Retail segment adjusted gross profit	**$ 3,473**	$ 2,098	**$ 7,728**	$ 5,336

(i) Certain 2013 figures have been amended to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 38 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 36.

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 unaudited interim period 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 is being recognized in cost of sales as the inventory is sold, with a resulting negative impact on gross profit. In the third quarter of 2014, $107 million and year-to-date $729 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 will implement the system in substantially all of its corporate grocery stores by the end of 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 end of 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 tables reconcile 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 16 and 40 weeks ended October 4, 2014 and October 5, 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 (16 weeks)					2013(i) (16 weeks)
(millions of Canadian dollars) (unaudited)	Retail	Financial Services(ii)	Choice Properties(ii)	Consolidation and Eliminations	Consolidated	Retail	Financial Services	Choice Properties(iii)	Consolidation and Eliminations	Consolidated
Net earnings					$ 142					$ 150
Add impact of the following:										
Net interest expense and other financing charges					150					171
Income taxes					43					54
Operating income	$ 294	$ 41	$ 105	$ (105)	$ 335	$ 336	$ 41	$ 184	$ (186)	$ 375
Depreciation and amortization	496	1	—	3	500	249	2	—	3	254
EBITDA	$ 790	$ 42	$ 105	$ (102)	$ 835	$ 585	$ 43	$ 184	$ (183)	$ 629
Operating income	$ 294	$ 41	$ 105	$ (105)	$ 335	$ 336	$ 41	$ 184	$ (186)	$ 375
Add (deduct) impact of the following:										
Recognition of fair value increment on inventory sold	107	—	—	—	107	—	—	—	—	—
Amortization of intangible assets acquired with Shoppers Drug Mart(iv)	168	—	—	—	168	—	—	—	—	—
Restructuring costs	44	—	2	—	46	3	—	—	—	3
Fixed asset and other related impairments	10	—	—	—	10	4	—	—	—	4
Acquisition of Shoppers Drug Mart related costs, net of divestitures gain	(2)	—	—	—	(2)	(1)	—	—	—	(1)
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	5	—	—	—	5	—	—	—	—	—
Choice Properties start-up costs and IPO transaction costs	—	—	—	—	—	—	—	3	—	3
Adjusted operating income	$ 626	$ 41	$ 107	$ (105)	$ 669	$ 342	$ 41	$ 187	$ (186)	$ 384
Depreciation and amortization(iv)	328	1	—	3	332	249	2	—	3	254
Adjusted EBITDA	$ 954	$ 42	$ 107	$ (102)	$ 1,001	$ 591	$ 43	$ 187	$ (183)	$ 638

(i) Certain 2013 figures have been amended to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 38 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 36.

(ii) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to October 4, 2014 are included in Consolidation and Eliminations.

(iii) Based on operations beginning July 5, 2013.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA excludes $168 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

	2014 (40 weeks)					2013[i] (40 weeks)				
(millions of Canadian dollars) (unaudited)	**Retail**	**Financial Services[ii]**	**Choice Properties[ii]**	**Consolidation and Eliminations**	**Consolidated**	Retail	Financial Services	Choice Properties[iii]	Consolidation and Eliminations	Consolidated
Net (loss) earnings					**$ (194)**					$ 513
Add (deduct) impact of the following:										
Net interest expense and other financing charges					**415**					327
Income taxes					**(66)**					185
Operating income	**$ 38**	**$ 115**	**$ 345**	**$ (343)**	**$ 155**	$ 928	$ 99	$ 184	$ (186)	$ 1,025
Depreciation and amortization	**1,065**	**5**	**—**	**9**	**1,079**	618	7	—	3	628
EBITDA	**$1,103**	**$ 120**	**$ 345**	**$ (334)**	**$ 1,234**	$1,546	$ 106	$ 184	$ (183)	$ 1,653
Operating income	**$ 38**	**$ 115**	**$ 345**	**$ (343)**	**$ 155**	$ 928	$ 99	$ 184	$ (186)	$ 1,025
Add (deduct) impact of the following:										
Recognition of fair value increment on inventory sold	**729**	**—**	**—**	**—**	**729**	—	—	—	—	—
Charge related to inventory measurement and other conversion differences	**190**	**—**	**—**	**—**	**190**	—	—	—	—	—
Amortization of intangible assets acquired with Shoppers Drug Mart[iv]	**293**	**—**	**—**	**—**	**293**	—	—	—	—	—
Acquisition of Shoppers Drug Mart related costs, net of divestitures gain	**58**	**—**	**—**	**—**	**58**	(1)	—	—	—	(1)
Restructuring costs	**44**	**—**	**2**	**—**	**46**	3	—	—	—	3
Fixed asset and other related impairments	**14**	**—**	**1**	**—**	**15**	10	—	—	—	10
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	**5**	**—**	**—**	**—**	**5**	—	—	—	—	—
Choice Properties general and administrative costs	**(2)**	**—**	**11**	**—**	**9**	—	—	—	—	—
Defined benefit plan amendments	**—**	**—**	**—**	**—**	**—**	(51)	—	—	—	(51)
Choice Properties start-up costs	**—**	**—**	**—**	**—**	**—**	—	—	3	—	3
Adjusted operating income	**$1,369**	**$ 115**	**$ 359**	**$ (343)**	**$ 1,500**	$ 889	$ 99	$ 187	$ (186)	$ 989
Depreciation and amortization[iv]	**772**	**5**	**—**	**9**	**786**	618	7	—	3	628
Adjusted EBITDA	**$2,141**	**$ 120**	**$ 359**	**$ (334)**	**$ 2,286**	$1,507	$ 106	$ 187	$ (183)	$ 1,617

(i) Certain 2013 figures have been amended to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 38 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 36.

(ii) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to October 4, 2014 are included in Consolidation and Eliminations.

(iii) Based on operations beginning July 5, 2013.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA excludes $293 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 are being amortized over their estimated useful lives. During the third quarter of 2014 $168 million and year-to-date $293 million of amortization were recognized in operating income. Annual amortization associated with the acquired intangibles will be approximately $550 million over the next ten years, and will decrease thereafter.

Acquisition of Shoppers Drug Mart related costs, net of divestitures gain In connection with the agreement to acquire all of the outstanding common shares of Shoppers Drug Mart, in the third quarter of 2014, the Company excluded nil (2013 – $9 million) and year-to-date $60 million (2013 – $9 million) of acquisition-related costs in operating income. The net gain related to the completed divestitures in the third quarter of 2014 and year-to-date of $2 million partially offset these costs. Although no significant additional costs related to the acquisition are anticipated, further adjustments for divestitures gain or loss will be made when the remaining Shoppers Drug Mart stores are sold. In the third quarter of 2013, in connection with the issuance of $1.6 billion of unsecured notes, the Company hedged its exposure to interest rates for the period prior to issuance. As the hedge did not qualify for hedge accounting, the resulting $10 million gain on settlement was recorded in operating income.

Restructuring costs In the third quarter of 2014 and year-to-date, the Company recorded a charge of $46 million (2013 – $3 million) of restructuring costs primarily associated with the reduction of corporate and store-support positions.

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 third quarter of 2014, the Company recorded a charge of $10 million (2013 – $4 million) and year-to-date $15 million (2013 – $10 million) related to fixed asset and other related impairments.

Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability In the second quarter of 2014, in conjunction with the acquisition, the Company converted certain Shoppers Drug Mart cash-settled equity-based compensation awards to awards based on the Company's common shares. The Company is exposed to market price fluctuations in its common share price as these awards are settled in cash and the associated liability is recorded at fair value at each reporting date based on the market price of the Company's common shares. In the third quarter and year-to-date of 2014, the Company recorded a loss of $5 million (2013 – nil).

Choice Properties general and administrative costs During the third quarter of 2014, the Company recorded nil and year-to-date $9 million of general and administrative costs incurred by Choice Properties in operating income.

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

Choice Properties start-up costs In connection with the IPO of Choice Properties, the Company incurred certain costs to facilitate the start-up of the new entity. During the third quarter and year-to-date of 2013, the Company recorded $3 million of Choice Properties' start-up costs in operating income.

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 16 and 40 week periods ended October 4, 2014 and October 5, 2013:

(millions of Canadian dollars/Canadian dollars) (unaudited)	**2014 (16 weeks)**		2013(5) (16 weeks)		**2014 (40 weeks)**		2013(5) (40 weeks)	
Net earnings (loss)/basic net earnings (loss) per common share	**$ 142**	**$ 0.34**	$ 150	$ 0.53	**$ (194)**	**$ (0.52)**	$ 513	$ 1.82
Add (deduct) impact of the following:								
Recognition of fair value increment on inventory sold	**79**	**0.19**	—	—	**536**	**1.45**	—	—
Amortization of intangible assets acquired with Shoppers Drug Mart(i)	**124**	**0.31**	—	—	**216**	**0.58**	—	—
Charge related to inventory measurement and other conversion differences	**—**	**—**	—	—	**139**	**0.38**	—	—
Acquisition of Shoppers Drug Mart related costs, net of divestitures gain	**—**	**—**	10	0.04	**64**	**0.17**	10	0.04
Fair value adjustment on Trust Unit Liability	**(23)**	**(0.06)**	(7)	(0.02)	**(3)**	**(0.01)**	(7)	(0.02)
Fixed asset and other related impairments	**8**	**0.02**	3	0.01	**12**	**0.03**	7	0.02
Restructuring costs	**34**	**0.08**	2	—	**34**	**0.09**	2	—
Accelerated amortization of deferred financing costs	**3**	**0.01**	—	—	**13**	**0.04**	—	—
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	**4**	**0.01**	—	—	**4**	**0.01**	—	—
Choice Properties general and administrative costs	**—**	**—**	—	—	**7**	**0.02**	—	—
Defined benefit plan amendments	**—**	**—**	—	—	**—**	**—**	(37)	(0.13)
Choice Properties start-up costs and IPO transaction costs	**—**	**—**	34	0.12	**—**	**—**	34	0.12
Early debt settlement costs	**—**	**—**	13	0.05	**—**	**—**	13	0.05
Adjusted net earnings/adjusted basic net earnings per common share	**$ 371**	**$ 0.90**	$ 205	$ 0.73	**$ 828**	**$ 2.24**	$ 535	$ 1.90

(i) Certain 2013 figures have been amended to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 38 and Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 36.

Acquisition of Shoppers Drug Mart related costs, net of divestitures gain In addition to the acquisition-related costs, net of divestitures gain recorded in operating income noted above, during the first quarter of 2014, $15 million and during the third quarter of 2013, $11 million of additional net interest expense on a pre-tax basis were 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 on 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 unaudited interim period 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 date based on the market price of Units at the end of the period. In the third quarter of 2014, the Company recorded a gain of $23 million (2013 – $7 million) and year-to-date a gain of $3 million (2013 – $7 million) in net interest expense and other financing charges related to the fair value adjustment on the Trust Unit Liability. Gains or losses related to the fair value adjustment on Trust Unit Liability are not subject to tax.

Accelerated amortization of deferred financing costs In the third quarter of 2014, the Company recorded a $4 million charge and year-to-date an $18 million charge related to the accelerated amortization of deferred financing costs due to the repayment of $350 million and $1.95 billion year-to-date of the term loan facility on a pre-tax basis.

Choice Properties IPO transaction costs In addition to the start-up costs recorded in operating income noted above, in the third quarter and year-to-date of 2013, transaction costs of $43 million on a pre-tax basis were incurred related directly to the Choice Properties IPO. These transaction costs were recorded in net interest and other financing charges.

Early debt settlement costs In the third quarter of 2013, the Company settled its remaining USD $150 million USPP note in advance of its May 29, 2015 maturity date and related cross currency swap. The Company incurred early-settlement costs related to the prepayment of $18 million on a pre-tax basis, which were recorded in net interest expense and other financing charges.

Free Cash Flow The following table reconciles free cash flow used in assessing the Company's financial condition to GAAP measures for the 16 and 40 weeks ended October 4, 2014 and October 5, 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 (16 weeks)**	2013 (16 weeks)	**2014 (40 weeks)**	2013 (40 weeks)
Cash flows from operating activities	**$ 704**	$ 210	**$ 1,617**	$ 753
Change in credit card receivables included in operating activities	**(12)**	151	**11**	125
Cash flows from operating activities net of credit card receivables	**692**	361	**1,628**	878
Less:				
Fixed asset purchases	**300**	252	**638**	561
Interest paid	**176**	114	**393**	272
Free cash flow	**$ 216**	$ (5)	**$ 597**	$ 45

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. In the table below, the Company has also presented adjusted debt as at March 28, 2014, the date of the acquisition of Shoppers Drug Mart, as this is the baseline for the Company's debt reduction targets.

(millions of Canadian dollars) (unaudited)	**As at October 4, 2014**	As at October 5, 2013	As at March 28, 2014	As at December 28, 2013
Bank indebtedness	**$ 323**	$ —	$ 295	$ —
Short term debt	**605**	905	605	605
Long term debt due within one year	**71**	982	902	1,008
Long term debt	**11,549**	6,648	11,262	6,672
Trust Unit Liability	**697**	653	703	688
Capital securities	**224**	223	224	224
Certain other liabilities	**49**	39	39	39
Total debt	**$ 13,518**	$ 9,450	$ 14,030	$ 9,236
Less:				
Independent Securitization Trusts in short term debt	**605**	905	605	605
Independent Securitization Trusts in long term debt	**750**	600	750	750
Independent Funding Trusts	**487**	460	469	475
Trust Unit Liability	**697**	653	703	688
Guaranteed Investment Certificates	**563**	365	443	430
Adjusted debt	**$ 10,416**	$ 6,467	$ 11,060	$ 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 16 and 40 week periods ended October 4, 2014 and October 5, 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) (16 weeks)**	2013(ii) (16 weeks)	**2014(i) (40 weeks)**	2013(ii) (40 weeks)
Rental revenue	**$ 171**	$ 154	**$ 508**	$ 154
Reverse – Straight-line rental revenue	**(9)**	(8)	**(26)**	(8)
	162	146	**482**	146
Property Operating Costs	**(43)**	(38)	**(129)**	(38)
Net Operating Income	**$ 119**	$ 108	**$ 353**	$ 108

(i) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to October 4, 2014 are included in Consolidation and Eliminations.

(ii) Based on operations beginning July 5, 2013.

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 16 and 40 week periods ended October 4, 2014 and October 5, 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) (16 weeks)**	2013(ii) (16 weeks)	**2014(i) (40 weeks)**	2013(ii) (40 weeks)
Net income	**$ 123**	$ 74	**$ 113**	$ 74
Fair value adjustments on Class B Limited Partnership units	**(100)**	35	**(63)**	35
Fair value adjustments on investment properties	**16**	(76)	**16**	(76)
Fair value adjustments on unit-based compensation	**(1)**	—	**(1)**	—
Distributions on Class B Limited Partnership units	**48**	43	**141**	43
Amortization of tenant improvement allowances	**—**	—	**1**	—
Funds from Operations	**$ 86**	$ 76	**$ 207**	$ 76
Restructuring	**2**	—	**2**	—
Business start-up costs	**—**	3	**—**	3
Straight-line rental revenue	**(9)**	(8)	**(26)**	(8)
Amortization of finance charges	**(1)**	—	**50**	—
Unit-based compensation expense	**1**	—	**2**	—
Sustaining property and leasing capital expenditures, normalized(iii)	**(6)**	(5)	**(24)**	(5)
Adjusted Funds from Operations	**$ 73**	$ 66	**$ 211**	$ 66

(i) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to October 4, 2014 are included in Consolidation and Eliminations.

(ii) Based on operations beginning July 5, 2013.

(iii) 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 384.7 million (2013 – 359.3 million) in the third quarter of 2014 and 378.6 million (2013 – 359.3 million) year-to-date.

Adjusted funds from operations payout ratio is calculated as Choice Properties' distribution per unit, which was $0.162501 (2013 – $0.156416) in the third quarter of 2014 and $0.487503 year-to-date (2013 – $0.156416), 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.

November 11, 2014
Toronto, Canada

Financial Results

Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	October 4, 2014 (16 weeks)	October 5, 2013[(i)] (16 weeks)	October 4, 2014 (40 weeks)	October 5, 2013[(i)] (40 weeks)
Revenue	**$ 13,599**	$ 10,009	**$ 31,198**	$ 24,731
Cost of Merchandise Inventories Sold	**10,027**	7,692	**23,803**	18,888
Selling, General and Administrative Expenses	**3,237**	1,942	**7,240**	4,818
Operating Income	**$ 335**	$ 375	**$ 155**	$ 1,025
Net interest expense and other financing charges (note 4)	**150**	171	**415**	327
Earnings (Loss) Before Income Taxes	**$ 185**	$ 204	**$ (260)**	$ 698
Income taxes (note 5)	**43**	54	**(66)**	185
Net Earnings (Loss)	**$ 142**	$ 150	**$ (194)**	$ 513
Net Earnings (Loss) per Common Share ($) (note 6)				
Basic	**$ 0.34**	$ 0.53	**$ (0.52)**	$ 1.82
Diluted	**$ 0.34**	$ 0.53	**$ (0.52)**	$ 1.81
Weighted Average Common Shares Outstanding (note 6) **(millions)**				
Basic	**412.5**	281.2	**370.3**	281.1
Diluted	**416.7**	284.4	**370.3**	284.1

(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)	**October 4, 2014 (16 weeks)**	October 5, 2013[i] (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013[i] (40 weeks)
Net Earnings (Loss)	**$ 142**	$ 150	**$ (194)**	$ 513
Other comprehensive (loss) income, net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment	**$ 3**	$ —	**$ 4**	$ —
Gain on derecognized derivative instrument (note 19)	**—**	—	**—**	(5)
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial (loss) gain (note 17)	**(41)**	181	**(87)**	210
Other comprehensive (loss) income	**$ (38)**	$ 181	**$ (83)**	$ 205
Total Comprehensive Income (Loss)	**$ 104**	$ 331	**$ (277)**	$ 718

(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	**$ —**	**$ (194)**	**$ —**	**$ —**	**$ (194)**
Other comprehensive (loss) income	**—**	**(87)**	**—**	**4**	**(83)**
Total Comprehensive (Loss) Income	**$ —**	**$ (281)**	**$ —**	**$ 4**	**$ (277)**
Acquisition of Shoppers Drug Mart Corporation (note 3 and note 16)	**6,119**	**—**	**—**	**—**	**6,119**
Net effect of equity-based compensation (note 16 and 18)	**134**	**(1)**	**(1)**	**—**	**132**
Release of shares held in trust (note 16 and 18)	**3**	**17**	**—**	**—**	**20**
Common shares purchased for cancellation (note 16)	**(54)**	**(95)**	**—**	**—**	**(149)**
Dividends declared per common share – $0.73 (note 16)	**—**	**(270)**	**—**	**—**	**(270)**
	$ 6,202	**$ (630)**	**$ (1)**	**$ 4**	**$ 5,575**
Balance at October 4, 2014	**$ 7,844**	**$ 4,641**	**$ 86**	**$ 4**	**$ 12,575**

(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	$ —	$ 513	$ —	$ —	$ 513
Other comprehensive income (loss)	—	210	—	(5)	205
Total Comprehensive Income (Loss)	$ —	$ 723	$ —	$ (5)	$ 718
Net effect of equity-based compensation (note 16 and 18)	81	—	15	—	96
Net effect of shares held in trust (note 16 and 18)	(6)	(40)	—	—	(46)
Common shares purchased for cancellation (note 16)	(9)	(64)	—	—	(73)
Dividends declared per common share – $0.70 (note 16)	—	(197)	—	—	(197)
	$ 66	$ 422	$ 15	$ (5)	$ 498
Balance at October 5, 2013	$ 1,633	$ 5,199	$ 70	$ —	$ 6,902

(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 October 4, 2014**	As at October 5, 2013[(i)]	As at December 28, 2013[(i)]
Assets			
Current Assets			
Cash and cash equivalents (note 7)	**$ 980**	$ 1,438	$ 2,260
Short term investments (note 7)	**49**	883	290
Accounts receivable	**1,187**	553	579
Credit card receivables (note 8)	**2,549**	2,430	2,538
Inventories (note 9)	**4,461**	2,103	2,097
Prepaid expenses and other assets	**216**	152	75
Assets held for sale (note 10)	**79**	22	22
Total Current Assets	**$ 9,521**	$ 7,581	$ 7,861
Fixed Assets	**10,742**	8,940	9,105
Investment Properties	**146**	96	99
Intangible Assets	**9,266**	114	111
Goodwill	**3,211**	943	943
Deferred Income Tax Assets	**272**	252	261
Security Deposits (note 7)	**6**	1,899	1,701
Franchise Loans Receivable (note 19)	**388**	362	375
Other Assets (note 11)	**209**	268	285
Total Assets	**$ 33,761**	$ 20,455	$ 20,741
Liabilities			
Current Liabilities			
Bank indebtedness (note 12)	**$ 323**	$ —	$ —
Trade payables and other liabilities	**4,623**	3,383	3,797
Provisions	**85**	45	66
Income taxes payable	**8**	54	37
Short term debt (note 13)	**605**	905	605
Long term debt due within one year (note 14)	**71**	982	1,008
Associate interest	**177**	—	—
Capital securities	**224**	—	—
Total Current Liabilities	**$ 6,116**	$ 5,369	$ 5,513
Provisions	**67**	62	56
Long Term Debt (note 14)	**11,549**	6,648	6,672
Trust Unit Liability (note 19)	**697**	653	688
Deferred Income Tax Liabilities	**1,955**	22	34
Capital Securities	**—**	223	224
Other Liabilities (note 15)	**802**	576	554
Total Liabilities	**$ 21,186**	$ 13,553	$ 13,741
Shareholders' Equity			
Common Shares (note 16)	**$ 7,844**	$ 1,633	$ 1,642
Retained Earnings	**4,641**	5,199	5,271
Contributed Surplus (note 18)	**86**	70	87
Accumulated Other Comprehensive Income	**4**	—	—
Total Shareholders' Equity	**$ 12,575**	$ 6,902	$ 7,000
Total Liabilities and Shareholders' Equity	**$ 33,761**	$ 20,455	$ 20,741

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

Financial Guarantees (note 20). Contingent Liabilities (note 21). Subsequent Events (note 23).

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

Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars) (unaudited)	**October 4, 2014 (16 weeks)**	October 5, 2013(i) (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013(i) (40 weeks)
Operating Activities				
Net earnings (loss)	**$ 142**	$ 150	**$ (194)**	$ 513
Income taxes (note 5)	**43**	54	**(66)**	185
Net interest expense and other financing charges (note 4)	**150**	171	**415**	327
Depreciation and amortization	**500**	254	**1,079**	628
Income taxes paid	**(58)**	(79)	**(227)**	(207)
Interest received	**5**	16	**26**	43
Settlement of equity forward contracts (note 19)	**—**	—	**—**	(16)
Settlement of cross currency swaps (note 19)	**—**	10	**—**	18
Change in credit card receivables (note 8)	**12**	(151)	**(11)**	(125)
Change in non-cash working capital	**(241)**	(241)	**(437)**	(585)
Fixed asset and other related impairments	**10**	4	**15**	10
Gain on disposal of assets	**(11)**	(2)	**(7)**	(3)
Recognition of fair value increment on inventory sold (note 9)	**107**	—	**729**	—
Charge related to inventory measurement and other conversion differences (note 9)	**—**	—	**190**	—
Gain on defined benefit plan amendments (note 17)	**—**	—	**—**	(51)
Other	**45**	24	**105**	16
Cash Flows from Operating Activities	**$ 704**	$ 210	**$ 1,617**	$ 753
Investing Activities				
Acquisition of Shoppers Drug Mart Corporation, net of cash acquired (note 3)	**$ —**	$ —	**$ (6,619)**	$ —
Fixed asset purchases	**(300)**	(252)	**(638)**	(561)
Change in short term investments (note 7)	**(2)**	(29)	**241**	(144)
Proceeds from fixed asset sales	**64**	12	**76**	23
Change in franchise investments and other receivables	**(8)**	2	**(21)**	27
Change in security deposits (note 7)	**91**	(1,673)	**1,695**	(1,643)
Intangible asset additions	**(30)**	(3)	**(48)**	(12)
Other	**(4)**	—	**(7)**	—
Cash Flows used in Investing Activities	**$ (189)**	$ (1,943)	**$ (5,321)**	$ (2,310)
Financing Activities				
Change in bank indebtedness	**$ (12)**	$ —	**$ 28**	$ —
Change in Associate interest	**7**	—	**3**	—
Long Term Debt (note 14)				
Issued	**106**	2,277	**5,740**	2,287
Retired	**(395)**	(178)	**(2,995)**	(402)
Deferred debt financing costs	**—**	(11)	**(29)**	(11)
Issuance of Trust Units (note 19)	**—**	660	**—**	660
Trust Unit issue costs	**—**	(43)	**—**	(43)
Interest paid	**(176)**	(114)	**(393)**	(272)
Dividends paid (note 16)	**(202)**	(135)	**(395)**	(259)
Common Shares				
Issued (note 16)	**46**	12	**610**	67
Purchased and held in trust (note 16)	**—**	—	**—**	(46)
Purchased for cancellation (note 16)	**(90)**	(73)	**(149)**	(73)
Cash Flows (used in) from Financing Activities	**$ (716)**	$ 2,395	**$ 2,420**	$ 1,908
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$ 2**	$ 5	**$ 4**	$ 8
Change in cash and cash equivalents	**$ (199)**	$ 667	**$ (1,280)**	$ 359
Cash and cash equivalents, beginning of period	**1,179**	771	**2,260**	1,079
Cash and Cash Equivalents, End of Period	**$ 980**	$ 1,438	**$ 980**	$ 1,438

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

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

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's 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 22).

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'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 November 11, 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 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 policies of both companies. The Company has implemented the change retrospectively in the second quarter of 2014, as follows:

Condensed Consolidated Statements of Earnings and Comprehensive Income Increase (Decrease) (millions of Canadian dollars except where otherwise indicated) (unaudited)	October 5, 2013 (16 weeks)	October 5, 2013 (40 weeks)	December 28, 2013 (52 weeks)
Cost of Merchandise Inventories Sold	$ 6	$ (13)	$ 5
Operating Income	$ (6)	$ 13	$ (5)
Earnings Before Income Taxes	$ (6)	$ 13	$ (5)
Income taxes	(2)	3	(2)
Net Earnings	$ (4)	$ 10	$ (3)
Total Comprehensive Income	$ (4)	$ 10	$ (3)
Net Earnings per Common Share ($)			
Basic	$ (0.02)	$ 0.04	$ (0.01)
Diluted	$ (0.01)	$ 0.04	$ (0.01)

Condensed Consolidated Balance Sheets Increase (Decrease) (millions of Canadian dollars) (unaudited)	As at October 5, 2013	As at December 28, 2013	As at December 30, 2012
Accounts receivable	$ (12)	$ (39)	$ (32)
Inventories	4	13	11
Deferred Income Tax Assets	3	8	6
Shareholders' Equity	$ (5)	$ (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 the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting 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.

In July 2014, the IASB issued IFRS 9, "Financial Instruments", replacing IAS 39, "Financial Instruments: Recognition and Measurement." The standard had three main phases: classification and measurement, impairment, and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with the exception of the general hedging phase which is applied prospectively. 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.

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:

(millions of Canadian dollars except where otherwise indicated)

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 from the date of acquisition 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)

Intangible Assets:			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	

Pursuant to a Consent Agreement reached with the Competition Bureau in the first quarter of 2014, the Company was required to divest 16 Shoppers Drug Mart stores, two of the Company's franchise grocery stores and nine in-store pharmacies. On July 21, 2014, the Competition Bureau approved the sale of two Shoppers Drug Mart stores, two of the Company's franchise grocery stores, as well as nine of the Company's in-store pharmacy operations.The Company received total proceeds of $36 million and recorded a gain of $2 million in operating income related to these divestitures. As at October 4, 2014, the divestitures of 14 Shoppers Drug Mart stores remain in process (see note 10). Subsequent to the end of the quarter, the Competition Bureau approved the sale of an additional ten Shoppers Drug Mart stores of which four sales have been completed.

The Company has incurred costs totalling $75 million related to the acquisition of Shoppers Drug Mart. Year-to-date 2014, $60 million were recorded in selling, general and administrative expenses and $15 million was recorded in net interest expense and other financing charges. There were no costs incurred in the third quarter of 2014.

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 unaudited interim period condensed consolidated statement of earnings for the period ended October 4, 2014 are approximately $6.0 billion in revenue and approximately $345 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 $33.7 billion and the Company's net loss would have amounted to approximately $164 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)	**October 4, 2014 (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Interest expense and other financing charges:				
Long term debt	**$ 148**	$ 88	**$ 347**	$ 221
Choice Properties IPO transaction costs	**—**	43	**—**	43
Early debt settlement costs	**—**	18	**—**	18
Shoppers Drug Mart acquisition-related costs (note 3)	**—**	12	**18**	12
Borrowings related to credit card receivables	**10**	11	**28**	28
Trust Unit distributions	**15**	10	**33**	10
Net interest on net defined benefit obligation (note 17)	**3**	8	**8**	18
Independent funding trusts	**4**	4	**11**	11
Dividends on capital securities	**4**	4	**11**	11
Capitalized interest	**(1)**	—	**(2)**	(1)
	$ 183	$ 198	**$ 454**	$ 371
Interest income:				
Accretion income	**$ (8)**	$ (6)	**$ (21)**	$ (16)
Fair value adjustment on Trust Unit Liability (note 19)	**(23)**	(7)	**(3)**	(7)
Derivative financial instruments	**—**	(7)	**—**	(10)
Short term interest income	**(2)**	(6)	**(11)**	(9)
Security deposits(i)	**—**	(1)	**(4)**	(2)
	$ (33)	$ (27)	**$ (39)**	$ (44)
Net interest expense and other financing charges	**$ 150**	$ 171	**$ 415**	$ 327

(i) Includes nil interest income for the third quarter of 2014 (2013 – $1 million) and $3 million year-to-date (2013 – $1 million) 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 third quarter of 2014 was $43 million (2013 – $54 million) and the effective income tax rate was 23.2% (2013 – 26.5%). The decrease in the effective income tax rate compared to the third quarter of 2013 was primarily attributable to a decrease in certain non-deductible items. Year-to-date income tax recovery was $66 million (2013 – expense of $185 million) and the effective tax rate was 25.4% (2013 – 26.5%). The year-to-date decrease in effective income tax rate over 2013 was primarily attributable to an increase in certain non-deductible amounts (including acquisition costs).

Note 6. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**October 4, 2014 (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Net earnings (loss)	**$ 142**	$ 150	**$ (194)**	$ 513
Weighted average common shares outstanding (note 16) (in millions)	**412.5**	281.2	**370.3**	281.1
Dilutive effect of equity-based compensation (in millions)	**3.3**	2.4	**—**	2.2
Dilutive effect of certain other liabilities (in millions)	**0.9**	0.8	**—**	0.8
Diluted weighted average common shares outstanding (in millions)	**416.7**	284.4	**370.3**	284.1
Basic net earnings (loss) per common share ($)	**$ 0.34**	$ 0.53	**$ (0.52)**	$ 1.82
Diluted net earnings (loss) per common share ($)	**$ 0.34**	$ 0.53	**$ (0.52)**	$ 1.81

For the third quarter of 2014, 10,423,280 (2013 – 10,180,344) and year-to-date 14,413,309 (2013 – 11,652,502) potentially dilutive instruments were excluded from the computation of diluted net earnings (loss) 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 October 4, 2014**	As at October 5, 2013	As at December 28, 2013
Cash	**$ 443**	$ 466	$ 515
Cash equivalents:			
Bankers' acceptances	**66**	303	270
Government treasury bills	**305**	478	1,420
Bank term deposits	**—**	—	42
Corporate commercial paper	**99**	191	13
Government agencies securities	**67**	—	—
Total cash and cash equivalents	**$ 980**	$ 1,438	$ 2,260

Short Term Investments

(millions of Canadian dollars)	**As at October 4, 2014**	As at October 5, 2013	As at December 28, 2013
Bankers' acceptances	**$ 1**	$ 224	$ 162
Government treasury bills	**28**	371	98
Corporate commercial paper	**6**	141	—
Government agencies securities	**12**	109	30
Other	**2**	38	—
Total short term investments	**$ 49**	$ 883	$ 290

Security Deposits

(millions of Canadian dollars)	**As at October 4, 2014**	As at October 5, 2013	As at December 28, 2013
Cash	**$ 6**	$ 92	$ 102
Bankers' acceptances	**—**	1	—
Government treasury bills[(i)]	**—**	1,777	1,599
Government agencies securities	**—**	29	—
Total security deposits	**$ 6**	$ 1,899	$ 1,701

(i) As at October 5, 2013 and 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 October 4, 2014, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $138 million (October 5, 2013 – $134 million; December 28, 2013 – $136 million), of which $6 million (October 5, 2013 – $112 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 October 4, 2014**	As at October 5, 2013	As at December 28, 2013
Gross credit card receivables	**$ 2,600**	$ 2,475	$ 2,585
Allowance for credit card receivables	**(51)**	(45)	(47)
Credit card receivables	**$ 2,549**	$ 2,430	$ 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).

As at October 4, 2014, the Company has arranged letters of credit on behalf of PC Bank, representing 9% (October 5, 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 (October 5, 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 October 4, 2014 and throughout 2014.

Note 9. Inventories

In connection with the acquisition of Shoppers Drug Mart, acquired assets and liabilities were recorded on the Company's unaudited interim period 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 is being recognized in cost of merchandise inventories sold, with a resulting negative impact to operating income. In the third quarter of 2014 and year-to-date, $107 million and $729 million, respectively, was recognized in cost of merchandise inventories sold.

With the upgrade of its information technology ("IT") infrastructure, the Company will implement the system in substantially all of its corporate grocery stores by the end of 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, in the second quarter of 2014, the Company 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 the third quarter of 2014, there was no change in the estimate recorded in the second quarter.

For inventories recorded as at October 4, 2014, the Company recorded $21 million (October 5, 2013 – $9 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 October 4, 2014 and October 5, 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 was required to divest 16 Shoppers Drug Mart stores, two of the Company's franchise grocery stores, as well as nine of the Company's in-store pharmacy operations (see note 3). As at October 4, 2014, assets totalling $70 million, including intangible assets of $50 million, inventories of $11 million and fixed assets of $9 million, relating to the 14 remaining Shoppers Drug Mart stores expected to be sold, have been included in assets held for sale (see note 23).

Note 11. Other Assets

(millions of Canadian dollars)	**As at October 4, 2014**	As at October 5, 2013	As at December 28, 2013
Fair value of cross currency swaps (note 19)	**$ —**	$ 30	$ —
Sundry investments and other receivables	**140**	136	136
Accrued benefit plan asset	**45**	67	106
Other	**24**	35	43
Other assets	**$ 209**	$ 268	$ 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 October 4, 2014, the Associates had utilized $323 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 third quarter of 2014, PC Bank extended the maturity date for certain of its Other Independent Securitization Trust agreements from the third quarter 2015 to the third quarter of 2016, with all other terms and conditions remaining substantially the same.

In the first quarter of 2014, PC Bank extended the maturity date for certain 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 The Company has repaid $450 million in MTNs year-to-date. As at October 4, 2014, all of the Company's MTNs were recorded as long term debt. As at October 5, 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.

During the third quarter of 2013, the Company issued $1.6 billion aggregate principal amount of senior unsecured notes, consisting of $800 million of Senior Unsecured Notes, 3.75% Series 2019 due March 12, 2019 and $800 million of Senior Unsecured Notes, 4.86% Series 2023, due September 12, 2023. The net proceeds from the offering were initially placed in escrow until used in connection with acquisition of Shoppers Drug Mart (see note 3).

Term Loan Facility In connection with the financing of 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. On July 23, 2014, the Company reached an agreement to re-price the interest rate on its 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%.

During the third quarter of 2014, the Company repaid $350 million of the amount drawn on this facility using $314 million of existing cash and $36 million from the proceeds of divested assets required by the Competition Bureau. On a year-to-date basis, the Company repaid $1.95 billion using net proceeds of $1.5 billion from the sale of Choice Properties Transferor Notes, $414 million of existing cash and $36 million from the proceeds of divested assets required by the Competition Bureau. As at October 4, 2014, the outstanding balance on the term loan facility was $1.55 billion. The amortization of the financing costs related to the term loan facility was $6 million in the third quarter of 2014 and $20 million year-to-date, of which $4 million and $18 million, respectively, was accelerated due to early repayments on the term loan.

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 acquisition of Shoppers Drug Mart.

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 to partially repay 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 part of the Choice Properties initial public offering on July 5, 2013, Choice Properties issued $400 million Series A Debentures with a 5-year term and a coupon of 3.55% per annum due July 5, 2018 and $200 million Series B Debentures with a 10-year term and a coupon of 4.90% per annum due July 5, 2023.

As at October 4, 2014, Choice Properties had drawn $77 million under its $500 million senior unsecured committed credit facility ("Choice Properties Credit Facility"). As at October 5, 2013 and December 28, 2013, Choice Properties had not drawn on its credit facility. In the third quarter of 2014, Choice Properties extended the maturity date of the Choice Properties Credit Facility to July 5, 2019. The facility contains certain financial covenants with which Choice Properties was in compliance as at October 4, 2014 and throughout 2014.

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

(millions of Canadian dollars)	**October 4, 2014 (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Balance, beginning of period	**$ 528**	$ 273	**$ 430**	$ 303
GICs issued	**49**	98	**185**	98
GICs matured	**(14)**	(6)	**(52)**	(36)
Balance, end of period	**$ 563**	$ 365	**$ 563**	$ 365

As at October 4, 2014, $27 million in GICs were recorded as long term debt due within one year (October 5, 2013 – $53 million; December 28, 2013 – $52 million).

Independent Funding Trusts As at October 4, 2014, the independent funding trusts had drawn $487 million (October 5, 2013 – $460 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 October 4, 2014, the Company had provided a letter of credit in the amount of $50 million (October 5, 2013 and December 28, 2013 – $48 million).

Committed Credit Facility In the second quarter of 2014, effective on the closing of the acquisition of Shoppers Drug Mart, 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 October 4, 2014, October 5, 2013 and December 28, 2013, the Company had not drawn on its Credit Facility. The Credit Facility contains certain financial covenants, with which the Company was in compliance as at October 4, 2014 and throughout 2014.

Private Placement Notes During the third quarter of 2013, the Company settled its remaining USD $150 million private placement ("USPP") note and related cross currency swap (see note 19) in advance of their May 29, 2015 maturity date. Loblaw incurred approximately $18 million of early-settlement costs related to this note, which was recorded in net interest expense and other financing charges.

During the second quarter of 2013, the Company repaid its USD $150 million USPP note that matured on May 29, 2013.

Note 15. Other Liabilities

(millions of Canadian dollars)	**As at October 4, 2014**	As at October 5, 2013	As at December 28, 2013
Net defined benefit plan obligation	**$ 317**	$ 228	$ 238
Other long term employee benefit obligation	**115**	114	107
Deferred vendor allowances	**10**	17	16
Equity-based compensation liability (note 18)	**23**	12	1
Fair value adjustment to acquired leases	**107**	—	—
Deferred lease obligation	**75**	34	25
Other	**155**	171	167
Other liabilities	**$ 802**	$ 576	$ 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 periods were as follows:

	October 4, 2014 (16 weeks)		October 5, 2013 (16 weeks)		**October 4, 2014 (40 weeks)**		October 5, 2013 (40 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**412,743,370**	**$ 7,821**	283,256,354	$ 1,633	**282,311,573**	**$ 1,648**	281,680,157	$ 1,567
Issued for settlement of stock options	**1,303,873**	**56**	336,304	15	**3,012,941**	**134**	1,912,501	81
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	**(1,600,300)**	**(30)**	(1,500,000)	(9)	**(2,864,200)**	**(54)**	(1,500,000)	(9)
Issued and outstanding, end of period	**412,446,943**	**$ 7,847**	282,092,658	$ 1,639	**412,446,943**	**$ 7,847**	282,092,658	$ 1,639
Shares held in trust, beginning of period	**(820,379)**	**$ (5)**	(1,101,932)	$ (6)	**(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)	**221,907**	**2**	7,088	—	**468,851**	**3**	8,656	—
Shares held in trust, end of period	**(598,472)**	**$ (3)**	(1,094,844)	$ (6)	**(598,472)**	**$ (3)**	(1,094,844)	$ (6)
Issued and outstanding net of shares held in trust, end of period	**411,848,471**	**$ 7,844**	280,997,814	$ 1,633	**411,848,471**	**$ 7,844**	280,997,814	$ 1,633
Weighted average outstanding, net of shares held in trust	**412,478,762**		281,201,718		**370,316,810**		281,120,552	

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

	October 4, 2014[(i)] (16 weeks)	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Dividends declared per share ($):				
Common share	**$ 0.245**	$ 0.240	**$ 0.730**	$ 0.700
Second Preferred Share, Series A	**$ 0.37**	$ 0.37	**$ 1.12**	$ 1.12

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

For financial statement presentation purposes, Second Preferred Shares, Series A dividends of $4 million (2013 – $4 million) and $11 million (2013 – $11 million) for the 16 and 40 weeks ended October 4, 2014 were included as a component of net interest expense and other financing charges in the unaudited interim period condensed consolidated statements of earnings (see note 4).

Subsequent to the end of the third quarter of 2014, the Board declared a quarterly dividend of $0.245 per common share, payable December 30, 2014, and declared a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable January 31, 2015.

Normal Course Issuer Bid The activity under the Company's Normal Course Issuer Bid ("NCIB") is summarized as follows:

	October 4, 2014 (16 weeks)	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Shares repurchased under the NCIB for cancellation (number of shares)	**(1,600,300)**	(1,500,000)	**(2,864,200)**	(1,500,000)
Cash consideration paid	**$ 90**	$ 73	**$ 149**	$ 73
Premium charged to Retained Earnings	**60**	64	**95**	64
Reduction in Common Shares	**30**	9	**54**	9

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

In the second quarter of 2014, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or to 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 in connection with 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 common shares from time to time at the then market price of such shares.

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

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

(millions of Canadian dollars)	**October 4, 2014 (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Post-employment benefit costs recognized in operating income(i)	**$ 42**	$ 39	**$ 105**	$ 58
Other long term employee benefits costs recognized in operating income	**6**	8	**17**	19
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 4)	**3**	8	**8**	18
Actuarial losses (gains) before income taxes recognized in other comprehensive income (loss)	**57**	(246)	**119**	(286)

(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 costs for the Company's long term disability plan. The actuarial losses recognized in third quarter of 2014 and year-to-date were primarily driven by decreases in the discount rates, partially offset by higher than expected returns on assets. The actuarial gains in the third quarter of 2013 were primarily due to increases in the discount rates partially offset by lower than expected returns on assets. The year-to-date 2013 actuarial gains were primarily driven by the increases in the discount rates and higher than expected returns on assets.

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 third quarter of 2014 (2013 – $10 million) and $57 million year-to-date (2013 – $26 million). The expense was recognized in selling, general and administrative expenses.

As a result of the acquisition of Shoppers Drug Mart, all 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 the third quarter of 2014 above was $8 million and $22 million year-to-date, related to these converted awards, of which $5 million for the third quarter of 2014 and year-to-date related to the fair value adjustment of converted awards that will be settled in cash.

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

(millions of Canadian dollars)	**As at October 4, 2014**	As at October 5, 2013	As at December 28, 2013
Trade payables and other liabilities	**$ 1**	$ —	$ —
Other liabilities	**23**	12	1
Contributed surplus	**86**	70	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)	**October 4, 2014 (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
Outstanding options, beginning of period	**10,983,066**	12,096,407	**10,995,995**	12,538,928
Granted	**29,171**	2,683	**1,683,711**	1,482,817
Converted options	**—**	—	**1,026,118**	—
Exercised	**(1,303,873)**	(336,304)	**(3,012,941)**	(1,912,501)
Forfeited/cancelled	**(479,245)**	(281,676)	**(729,083)**	(579,392)
Expired	**—**	—	**(734,681)**	(48,742)
Outstanding options, end of period	**9,229,119**	11,481,110	**9,229,119**	11,481,110

During the third quarter of 2014, the Company granted stock options with a weighted average exercise price of $54.81 (2013 – $49.72) and $47.64 year-to-date (2013 – $40.62). In addition, the Company issued common shares on the exercise of stock options with a weighted average share price during the third quarter of 2014 of $53.81 (2013 – $48.12) and $49.73 year-to-date (2013 – $46.68), and received cash consideration of $46 million (2013 – $12 million) during the quarter and $110 million (2013 – $67 million) year-to-date.

The Company converted Shoppers Drug Mart stock options to Loblaw stock options in the second quarter of 2014 with a weighted average exercise price of $35.26. The fair value of converted Shoppers Drug Mart stock options to Loblaw stock options was $13 million.

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

	October 4, 2014 (16 weeks)	October 5, 2013 (16 weeks)
Expected dividend yield	**1.8%**	2.0%
Expected share price volatility	**18.5% – 22.2%**	19.2% – 23.7%
Risk-free interest rate	**1.3% – 1.8%**	1.5% – 2.0%
Expected life of options	**3.9 – 6.3 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 October 4, 2014 was 12.0% (October 5, 2013 – 15.0%).

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

(Number of Awards)	**October 4, 2014 (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
RSUs, beginning of period	**1,219,925**	1,115,437	**1,084,514**	1,038,271
Granted	**23,190**	23,098	**419,820**	368,394
Settled	**(221,374)**	(6,940)	**(465,416)**	(249,062)
Forfeited	**(65,673)**	(14,089)	**(82,850)**	(40,097)
RSUs, end of period	**956,068**	1,117,506	**956,068**	1,117,506

The fair value of RSUs granted during the third quarter of 2014 was $1 million (2013 – $1 million) and $19 million (2013 – $15 million) year-to-date . During 2013, the Company settled $10 million of RSUs in cash prior to amending the RSU plan to require settlement in shares.

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 October 4, 2014, the number of converted RSUs outstanding is 599,831 after forfeitures and reinvested dividends.

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

(Number of Awards)	**October 4, 2014 (16 weeks)**	October 5, 2013 (16 weeks)	**October 4, 2014 (40 weeks)**	October 5, 2013 (40 weeks)
PSUs, beginning of period	**1,111,547**	329,429	**309,110**	50,818
Granted	**21,345**	593	**834,423**	283,264
Settled	**(533)**	(148)	**(3,435)**	(148)
Forfeited/cancelled	**(85,612)**	(8,496)	**(93,351)**	(12,556)
PSUs, end of period	**1,046,747**	321,378	**1,046,747**	321,378

The fair value of PSUs granted during the third quarter of 2014 was $1 million (2013 – nominal) and $37 million (2013 – $11 million) year-to-date.

Settlement of Awards from Shares Held in Trust The Company settled RSUs and PSUs totaling 221,907 during the third quarter of 2014 (2013 – 7,088) and 468,851 year-to-date (2013 – 8,656) through the trusts established for settlement of each of the RSU and PSU plans (see note 16). The settlements in the third quarter of 2014 and year-to-date resulted in a $7 million and $16 million net increase to retained earnings, respectively (2013 – nominal and nominal, respectively); and a $2 million and $3 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:

	As at October 4, 2014		As at October 5, 2013		As at December 28, 2013	
(millions of Canadian dollars)	**Total carrying amount**	**Total fair value**	Total carrying amount	Total fair value	Total carrying amount	Total fair value
Financial assets designated as fair value through profit or loss:						
Cash and cash equivalents	**$ 980**	**$ 980**	$ 1,438	$ 1,438	$ 2,260	$ 2,260
Short term investments	**49**	**49**	883	883	290	290
Security Deposits	**6**	**6**	1,899	1,899	1,701	1,701
Loans and receivables (amortized cost):						
Accounts receivable	**1,187**	**1,187**	553	553	579	579
Credit card receivables	**2,549**	**2,549**	2,430	2,430	2,538	2,538
Franchise Loans Receivable	**388**	**388**	362	362	375	375
Certain other assets	**67**	**67**	69	69	67	67
Financial assets required to be classified as fair value through profit or loss:						
Derivatives included in prepaid expenses and other assets	**2**	**2**	39	39	2	2
Derivatives included in other assets	**—**	**—**	30	30	—	—
Total financial assets	**$ 5,228**	**$ 5,228**	$ 7,703	$ 7,703	$ 7,812	$ 7,812

	As at October 4, 2014		As at October 5, 2013		As at December 28, 2013	
(millions of Canadian dollars)	**Total carrying amount**	**Total fair value**	Total carrying amount	Total fair value	Total carrying amount	Total fair value
Financial liabilities designated as fair value through profit or loss:						
Bank indebtedness	**$ 323**	**$ 323**	$ —	$ —	$ —	$ —
Financial liabilities required to be classified as fair value through profit or loss:						
Derivatives included in trade payables and other liabilities	**2**	**2**	—	—	4	4
Trust Unit Liability	**697**	**697**	653	653	688	688
Other financial liabilities (amortized cost):						
Trade payables and other liabilities	**4,621**	**4,621**	3,383	3,383	3,793	3,793
Short term debt	**605**	**605**	905	905	605	605
Long Term Debt	**11,620**	**12,526**	7,630	8,103	7,680	8,188
Capital Securities	**224**	**236**	223	238	224	236
Certain other liabilities	**31**	**31**	41	41	40	40
Total financial liabilities	**$ 18,123**	**$ 19,041**	$ 12,835	$ 13,323	$ 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 October 4, 2014**	As at October 5, 2013	As at December 28, 2013
Level 1			
Financial assets			
Designated as fair value through profit or loss	**$ 928**	$ 3,850	$ 4,238
Financial liabilities			
Designated as fair value through profit or loss	**323**	—	—
Classified as fair value through profit or loss	**697**	653	688
Other financial liabilities (amortized cost)	**236**	238	236
Level 2			
Financial assets			
Classified as fair value through profit or loss	**$ 2**	$ 68	$ 2
Designated as fair value through profit or loss	**107**	370	13
Loans and receivables (amortized cost)	**11**	8	8
Financial liabilities			
Other financial liabilities (amortized cost)	**12,530**	8,103	8,188
Level 3			
Financial assets			
Classified as fair value through profit or loss	**$ —**	$ 1	$ —
Loans and receivables (amortized cost)	**444**	423	434
Financial liabilities			
Classified as fair value through profit or loss	**2**	—	4
Other financial liabilities (amortized cost)	**27**	41	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 October 4, 2014, October 5, 2013 and December 28, 2013 consist of embedded derivatives on purchase orders placed in neither Canadian dollars, nor the functional currency of the vendor. These derivatives are valued using a market approach based on the differential in exchange rates and timing of settlement. The significant unobservable input used in the fair value measurement is the cost of purchase orders. Significant increases (decreases) in any of the inputs would result in a significantly higher (lower) fair value measurement.

The fair value of the embedded foreign currency derivative classified as Level 3 included in trade payables and other liabilities as at October 4, 2014 was $2 million (October 5, 2013 – $1 million in prepaid expenses and other assets; December 28, 2013 – $4 million in trade payables and other liabilities). During the third quarter of 2014, a $3 million loss (2013 – $1 million gain) was recorded in operating income and a $1 million gain (2013 – $1 million gain) was recorded year-to-date. As at October 4, 2014, a 1% increase (decrease) in foreign currency exchange rates would result in a $1 million gain (loss) in fair value.

During the third quarter of 2014, the Company recognized a gain of $3 million (2013 – $14 million gain) and a gain of $6 million year-to-date (2013 – $35 million gain) on financial instruments designated as fair value through profit or loss. In addition, during the third quarter of 2014 a gain of $22 million (2013 – $10 million gain) and a gain of $6 million year-to-date (2013 – $8 million gain) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

During the third quarter of 2014, net interest expense of $172 million (2013 – $183 million) and $425 million (2013 – $336 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 October 5, 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 its USD $150 million USPP swap that matured on May 29, 2013. In the third quarter of 2013, the Company settled its remaining USD $150 million USPP cross currency swap in advance of its maturity on May 29, 2015. This settlement occurred in conjunction with the early payment of the underlying USD $150 million USPP note (see note 14**).**

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

(millions of Canadian dollars)	Glenhuron Cross Currency Swaps As at October 5, 2013	USPP Cross Currency Swaps As at October 5, 2013
Exchange amount	$ 1,202	$ —
Cumulative unrealized foreign currency exchange rate receivable recorded in:		
Prepaid expenses and other assets	$ 38	$ —
Other assets	30	—

The following table summarizes the 2013 impact to operating income resulting from changes in fair value of the cross currency swaps and the underlying exposures:

(millions of Canadian dollars)	Glenhuron Cross Currency Swaps October 5, 2013 (16 weeks)	Glenhuron Cross Currency Swaps October 5, 2013 (40 weeks)	USPP Cross Currency Swaps October 5, 2013 (16 weeks)	USPP Cross Currency Swaps October 5, 2013 (40 weeks)
Fair value loss (gain) related to swaps(i)	$ 14	$ 38	$ (2)	$ (11)
Translation (gain) loss related to the underlying exposures	(14)	(35)	5	14

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

Interest Rate Swaps In the second quarter of 2013, the Company settled its notional $100 million interest rate swaps. In the third quarter of 2013, the Company settled its remaining notional $50 million interest rate swaps. The Company recognized a $2 million fair value gain in operating income in the third quarter of 2013 and $5 million year-to-date related to these swaps.

Equity Forward Contracts In 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 third quarter of 2014, the Company recognized a $2 million gain (2013 – $2 million) and $2 million gain year-to-date (2013 – $4 million) in operating income related to these derivatives. As at October 4, 2014, a cumulative unrealized gain of $2 million was recorded in prepaid expenses and other assets (October 5, 2013 – nominal loss recorded in trade payables and other liabilities; December 28, 2013 – $2 million gain recorded in prepaid expenses and other assets).

Trust Unit Liability As at October 4, 2014, the fair value of the Trust Unit Liability of $697 million (October 5, 2013 – $653 million; December 28, 2013 – $688 million) was recorded on the unaudited interim period condensed consolidated balance sheets. In the third quarter of 2014 and year-to-date, the Company recorded fair value gains of $23 million (2013 – $7 million) and $3 million (2013 – $7 million), respectively, in net interest expense and other financing charges related to Choice Properties' Trust Units ("Units"). Choice Properties issued 403,382 Units in the third quarter of 2014 (2013 – nil) and 1,125,745 Units year-to-date (2013 – nil), to eligible unitholders under its distribution reinvestment plan. The issuances resulted in a $5 million increase in the quarter (2013 – nil) to the Trust Unit Liability and $12 million 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 third quarter of 2014, the Company held an 82.5% ownership interest in Choice Properties.

Franchise Loans Receivable and Franchise Investments in Other Assets The value of Loblaw franchise loans receivable of $388 million (October 5, 2013 – $362 million; December 28, 2013 – $375 million) was recorded on the consolidated balance sheets. During the third quarter of 2014, the Company recorded an impairment loss of $2 million (2013 – $6 million) and an impairment loss of $7 million (2013 – $11 million) year-to-date in operating income related to these loans receivable.

The value of Loblaw franchise investments of $56 million (October 5, 2013 – $61 million; December 28, 2013 – $58 million) was recorded in other assets. During the third quarter of 2014, the Company recorded a $7 million loss (2013 – $5 million gain) and a $13 million loss (2013 – $1 million loss) year-to-date in operating income related to these investments.

Note 20. Financial Guarantees

In the third quarter of 2014, the Company arranged for an irrevocable standby letter of credit from a major Canadian chartered bank on behalf of one of its wholly-owned subsidiaries in the amount of $91 million.

Note 21. 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 Associates, 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 Associates 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 the CRA intends to proceed with reassessments of the tax treatment of the Company's wholly-owned foreign subsidiary, Glenhuron. The CRA's position is 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.

If the CRA were to prevail in all of these reassessments, which the Company believes would be unlikely, the estimated total tax and interest would be approximately $440 million based on the CRA's assertion of the required income inclusion in respect of the 2000 to 2010 taxation years. The amount alleged by the CRA to be owing will increase as interest accrues. The Company believes it is likely that the CRA will issue reassessments for 2011 to 2013 on the same or similar basis. No amount for any reassessments has been provided for in the Company's financial statements.

The Company strongly disagrees with the CRA's position and intends to vigorously defend its position. Based on recent correspondence, the Company expects to receive reassessments from the CRA sometime in the next two quarters and will appeal reassessments as and when they are received. The appeal process will require the Company to make cash payments or provide other forms of security on a portion of the amount alleged by the CRA to be owing in order to dispute the reassessments. If the Company is successful in defending its position, in whole or in part, some or all of the cash payments or security would be returned to the Company.

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 22. 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 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 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. 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:

				October 4, 2014 (16 weeks)						October 5, 2013 (16 weeks)
(millions of Canadian dollars) (unaudited)	**Retail**	**Financial Services(i)**	**Choice Properties(i)**	**Consolidation and Eliminations(ii)**	**Total**	Retail	Financial Services	Choice Properties	Consolidation and Eliminations	Total
Revenue(iii)	**$ 13,375**	**$ 207**	**$ 171**	**$ (154)**	**$ 13,599**	$ 9,772	$ 222	$ 154	$ (139)	$ 10,009
Operating Income	**$ 294**	**$ 41**	**$ 105**	**$ (105)**	**$ 335**	$ 336	$ 41	$ 184	$ (186)	$ 375
Adjusting Items(iv)	**332**	**—**	**2**	**—**	**334**	6	—	3	—	9
Adjusted Operating Income(iv)	**$ 626**	**$ 41**	**$ 107**	**$ (105)**	**$ 669**	$ 342	$ 41	$ 187	$ (186)	$ 384
Depreciation and Amortization(v)	**$ 328**	**$ 1**	**$ —**	**$ 3**	**$ 332**	$ 249	$ 2	$ —	$ 3	$ 254
Adjusted EBITDA(iv)	**$ 954**	**$ 42**	**$ 107**	**$ (102)**	**$ 1,001**	$ 591	$ 43	$ 187	$ (183)	$ 638
Net interest expense and other financing charges	**$ 119**	**$ 14**	**$ (18)**	**$ 35**	**$ 150**	$ 104	$ 14	$ 110	$ (57)	$ 171

(i) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to October 4, 2014 are included in Consolidation and Eliminations.

(ii) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $118 million (2013 – $107 million) of rental revenue and $36 million (2013 – $32 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Operating income includes the elimination of the $118 million (2013 – $107 million) impact of rental revenue described above; the elimination of a $16 million loss (2013 – $76 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets or Investment Properties by the Company and measured at cost; and the recognition of $3 million (2013 – $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 $61 million (2013 – $68 million) of interest expense included in Choice Properties related to debt owing to the Company; Unit distributions to external unitholders of $11 million (2013 – $10 million), which excludes distributions paid to the Company, and Choice Properties Unit issuance costs of $43 million incurred in 2013, which are reflected as a reduction of equity in Choice Properties, and presented as interest expense for the consolidated Company; the elimination of a $100 million fair value gain (2013 – $35 million loss) recognized by Choice Properties on Class B Limited Partnership units held by the Company; the reversal of elimination of $8 million of Choice Properties interest expense incurred to June 30, 2014; and a $23 million fair value gain (2013 – $7 million) on the Company's Trust Unit Liability.

(iii) Included in Financial Services revenue is $91 million (2013 – $97 million) of interest income.

(iv) Certain items are excluded from operating income and EBITDA(2) to derive adjusted operating income(2) and adjusted EBITDA(2), respectively. Adjusted operating income(2) and adjusted EBITDA(2) are used internally by management when analyzing segment underlying performance.

(v) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $168 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars) (unaudited)	October 4, 2014 (40 weeks) Retail	Financial Services(i)	Choice Properties(i)	Consolidation and Eliminations(ii)	Total	October 5, 2013 (40 weeks) Retail	Financial Services	Choice Properties	Consolidation and Eliminations	Total
Revenue(iii)	**$ 30,567**	**$ 579**	**$ 508**	**$ (456)**	**$ 31,198**	$ 24,181	$ 535	$ 154	$ (139)	$ 24,731
Operating (Loss) Income	**$ 38**	**$ 115**	**$ 345**	**$ (343)**	**$ 155**	$ 928	$ 99	$ 184	$ (186)	$ 1,025
Adjusting Items(iv)	**1,331**	**—**	**14**	**—**	**1,345**	(39)	—	3	—	(36)
Adjusted Operating Income(iv)	**$ 1,369**	**$ 115**	**$ 359**	**$ (343)**	**$ 1,500**	$ 889	$ 99	$ 187	$ (186)	$ 989
Depreciation and Amortization(v)	**$ 772**	**$ 5**	**$ —**	**$ 9**	**$ 786**	$ 618	$ 7	$ —	$ 3	$ 628
Adjusted EBITDA(iv)	**$ 2,141**	**$ 120**	**$ 359**	**$ (334)**	**$ 2,286**	$ 1,507	$ 106	$ 187	$ (183)	$ 1,617
Net interest expense and other financing charges	**$ 286**	**$ 39**	**$ 232**	**$ (142)**	**$ 415**	$ 239	$ 35	$ 110	$ (57)	$ 327

(i) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to October 4, 2014 are included in Consolidation and Eliminations.

(ii) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $350 million (2013 – $107 million) of rental revenue and $106 million (2013 – $32 million) of cost recovery recognized by Choice Properties, received from the Retail segment.
- Operating income includes the elimination of the $350 million (2013 – $107 million) impact of rental revenue described above; the elimination of a $16 million loss (2013 – $76 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets or Investment Properties by the Company and measured at cost; and the recognition of $9 million (2013 – $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 $235 million (2013 – $68 million) of interest expense included in Choice Properties related to debt owing to the Company; Unit distributions to external unitholders of $33 million (2013 – $10 million), which excludes distributions paid to the Company, and Choice Properties Unit issuance costs of $43 million incurred in 2013, which are reflected as a reduction of equity in Choice Properties, and presented as interest expense for the consolidated Company; the elimination of a $63 million fair value gain (2013 – $35 million loss) recognized by Choice Properties on Class B Limited Partnership units held by the Company; and a $3 million fair value gain (2013 – $7 million) on the Company's Trust Unit Liability.

(iii) Included in Financial Services revenue is $266 million (2013 – $238 million) of interest income.

(iv) Certain items are excluded from operating income and EBITDA[2] to derive adjusted operating income[2] and adjusted EBITDA[2], respectively. Adjusted operating income[2] and adjusted EBITDA[2] are used internally by management when analyzing segment underlying performance.

(v) Depreciation and amortization for the calculation of adjusted EBITDA excludes $293 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	**As at October 4, 2014**	As at October 5, 2013	As at December 28, 2013
Total Assets			
Retail	**$ 30,193**	$ 17,104	$ 17,290
Financial Services(i)	**2,985**	2,688	2,801
Choice Properties(i)	**7,774**	7,174	7,448
Consolidation and Eliminations(ii)	**(7,191)**	(6,511)	(6,798)
Total	**$ 33,761**	$ 20,455	$ 20,741

(i) For segment presentation purposes, the results are for the period ended September 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to October 4, 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)	October 4, 2014 (16 weeks)	October 5, 2013 (16 weeks)	October 4, 2014 (40 weeks)	October 5, 2013 (40 weeks)
Additions to Fixed Assets and Intangible Assets				
Retail(i)	**$ 304**	$ 226	**$ 597**	$ 543
Financial Services(ii)	**5**	2	**15**	3
Choice Properties(ii)	**24**	6,929	**135**	6,929
Consolidation and Eliminations(iii)	**(3)**	(6,902)	**(61)**	(6,902)
Total	**$ 330**	$ 255	**$ 686**	$ 573

(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 September 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to October 4, 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 23. Subsequent Events

Subsequent to the end of the quarter, the Company sold 16 properties to Choice Properties for an aggregate price of approximately $212 million. Consideration for the properties included 10,698,143 Class B Limited Partnership units, $96 million in cash and the assumption of a $4 million mortgage by Choice Properties. As of November 11, 2014, the Company's ownership interest in Choice Properties was 82.9%.

Subsequent to the end of the quarter, the Company exercised its option to acquire a warehouse from an unrelated party and entered into a commitment to sell the warehouse to Choice Properties for approximately $82 million. The transaction is expected to close in the first quarter of 2015.

Subsequent to the end of the quarter, the Company arranged an additional $7 million letter of credit on behalf of PC Bank for certain Other Independent Securitization Trusts to a total of $61 million, which represents 10% of the outstanding securitized liability. In addition, the Company arranged letters of credit on behalf of PC Bank, representing 9% of all the outstanding *Eagle* notes in the amount of $68 million.

Subsequent to the end of the quarter, the Competition Bureau approved the sale of an additional ten Shoppers Drug Mart stores of which four sales have been completed.

Financial Summary[3]

As at or for the periods ended October 4, 2014 and October 5, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (16 weeks)	2013 (16 weeks)
Consolidated Results of Operations		
Revenue	**$ 13,599**	$ 10,009
Operating income	**335**	375
Adjusted operating income[2]	**669**	384
Adjusted EBITDA[2]	**1,001**	638
Net interest expense and other financing charges	**150**	171
Net earnings	**142**	150
Adjusted net earnings[2]	**371**	205
Consolidated Financial Position and Cash Flows		
Adjusted debt[2]	**10,416**	6,467
Cash and cash equivalents, short term investments and security deposits	**1,035**	4,220
Cash flows from operating activities	**704**	210
Capital investment	**(300)**	(252)
Free cash flow[2]	**216**	(5)
Consolidated Per Common Share ($)		
Basic net earnings	**0.34**	0.53
Adjusted basic net earnings[2]	**0.90**	0.73
Consolidated Financial Measures and Ratios		
Revenue growth	**35.9 %**	1.9 %
Adjusted operating margin[2]	**4.9 %**	3.8 %
Adjusted EBITDA margin[2]	**7.4 %**	6.4 %
Adjusted debt[2] to rolling year adjusted EBITDA[2]	**3.8x**	3.0x
Retail Results of Operations		
Sales	**13,375**	9,772
Gross profit	**3,366**	2,098
Adjusted gross profit[2]	**3,473**	2,098
Operating income	**294**	336
Adjusted operating income[2]	**626**	342
Adjusted EBITDA[2]	**954**	591
Retail Operating Statistics		
Same-store sales[3] growth[i]	**2.6 %**	0.4 %
Adjusted gross profit percentage[2]	**26.0 %**	21.5 %
Adjusted operating margin[2]	**4.7 %**	3.5 %
Adjusted EBITDA margin[2]	**7.1 %**	6.0 %
Retail square footage (in millions)	**69.9**	51.8
Number of corporate stores[ii]	**617**	570
Number of franchise stores	**515**	488
Number of Associate-owned drug stores	**1,308**	—
Financial Services Results of Operations[iii]		
Revenue	**207**	222
Operating income	**41**	41
Earnings before income taxes	**27**	27
Financial Services Operating Measures and Statistics[3]		
Average quarterly net credit card receivables	**2,512**	2,297
Credit card receivables	**2,549**	2,430
Allowance for credit card receivables	**51**	45
Annualized yield on average quarterly gross credit card receivables	**13.8 %**	13.5 %
Annualized credit loss rate on average quarterly gross credit card receivables	**4.4 %**	4.2 %
Choice Properties Results of Operations[iii]		
Revenue	**171**	154
Operating income	**105**	184
Net interest expense and other financing charges	**(18)**	110
Choice Properties Operating Measures[3]		
Net operating income[2]	**119**	108
Funds from operations[2]	**86**	76
Adjusted funds from operations[2]	**73**	66
Adjusted funds from operations per unit diluted[2] ($)	**0.19**	0.18
Adjusted funds from operations payout ratio[2]	**86.0 %**	85.0 %

(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 September 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to October 4, 2014 are included in Consolidation and Eliminations.

Corporate Profile

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

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

Trademarks

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

Shareholder Information

Registrar and Transfer Agent

Computershare Investor Services Inc.	Toll free: 1-800-564-6253
100 University Avenue	(Canada and U.S)
Toronto, Canada	Fax: (416) 263-9394
M5J 2Y1	Toll free fax: 1-888-453-0330
	International direct dial: (514) 982-7555

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

Investor Relations

Investor inquiries, contact:	Media inquiries, contact:
Dennis Fong	Kevin Groh
Investor Relations	Vice President, Corporate Affairs and Communication
(905) 861-2489	(905) 861-2437
investor@loblaw.ca	pr@loblaw.ca

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank. The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investor 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 November 12, 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: 9205518. 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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