Loblaw

COMPANIES LIMITED

Q2

SECOND QUARTER REPORT TO SHAREHOLDERS

24 WEEKS ENDING JUNE 20, 2015

2015 Second Quarter Report to Shareholders

2015 Second Quarter Highlights[1]

"I am pleased with our overall performance in the second quarter, as we continued to execute well against our strategic framework," reported Galen G. Weston, President and Executive Chairman of Loblaw Companies Limited. "Looking ahead, the grocery industry remains highly competitive and healthcare reform continues to put pressure on our pharmacy business. We are well positioned to achieve earnings growth through a stable trading platform, incremental efficiencies, synergies, and a stronger balance sheet."

Financial Highlights

- Consolidated sales were $10,535 million, an increase of 2.2% compared to the second quarter of 2014.
- Retail segment sales were $10,318 million, an increase of 2.2% compared to the second quarter of 2014.
    - Food retail (Loblaw) same-store sales growth for the quarter was 4.2%, after excluding gas bar (1.2%) and the negative impact of a change in distribution model by a tobacco supplier (0.9%). Including these impacts, food retail same-store sales growth was 2.1% (2014 – 1.8%).
    - Drug retail (Shoppers Drug Mart) same-store sales increased by 3.8% (2014 – 2.5%), with pharmacy increasing by 3.9% (2014 – 2.5%) and front store increasing by 3.7% (2014 – 2.4%) over the second quarter of 2014.
- Retail segment gross profit was $2,711 million and adjusted gross profit[2] was $2,719 million. Adjusted gross profit percentage[2] was 26.4% compared to 26.3% in the second quarter of 2014.
- The Company incurred restructuring and other related charges of $45 million in the second quarter of 2015 as part of a restructuring plan that includes the closure of approximately 52 unprofitable retail locations over the next 12 months. The Company expects approximately $70 million to be recognized in the third quarter of 2015. On an annualized basis, the closures will decrease sales by approximately $300 million but will result in a favourable impact to operating income of approximately $35 million to $40 million.
- During the second quarter of 2015, the Company realized approximately $53 million of net synergies.
- During the second quarter of 2015, the Company continued to deliver efficiencies in food retail.
- During the second quarter of 2015, adjusted debt[2] decreased by $323 million and cumulatively since the closing of the acquisition of Shoppers Drug Mart by $1,345 million, leaving only $355 million of further reduction to achieve the Company's target. The Company's adjusted debt[2] to rolling year adjusted EBITDA[2] was 2.7x as at June 20, 2015 compared to 4.5x as at June 14, 2014.

See "MD&A Endnotes" at the end of the Company's Management's Discussion and Analysis.

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 second quarter 2015 unaudited interim period condensed consolidated financial statements and the accompanying notes included in this Quarterly Report, the audited annual consolidated financial statements and the accompanying notes for the year ended January 3, 2015 and the related annual MD&A included in the Company's 2014 Annual Report – Financial Review ("2014 Annual Report").

The Company's second quarter 2015 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.

Management uses 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. See Section 13 "Non-GAAP Financial Measures" for more information on the Company's non-GAAP financial measures.

A glossary of terms used throughout this Quarterly Report can be found at the back of the Company's 2014 Annual Report. In addition, this Quarterly Report includes the following terms: "adjusted debt[(2)] to rolling year adjusted EBITDA[(2)]", "rolling year adjusted return on equity[(2)]" and "rolling year adjusted return on capital[(2)]". These terms are defined in Section 13 "Non-GAAP Financial Measures of this MD&A.

The information in this MD&A is current to July 22, 2015, unless otherwise noted.

1. Forward-Looking Statements

This Quarterly Report, including this MD&A, 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, opportunities and legal and regulatory matters. Specific forward-looking statements in this Quarterly Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, synergies and other benefits associated with the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), future liquidity and debt reduction targets, planned capital investments, and status and impact of information technology ("IT") systems implementation. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in Section 12 "Outlook" 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", "on track" 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 2015 is based on certain assumptions including assumptions about anticipated cost savings, operating efficiencies and continued growth from current initiatives. 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 Section 15 "Enterprise Risks and Risk Management" of the MD&A in the Company's 2014 Annual Report and the Company's Annual Information Form (for the year ended January 3, 2015). Such risks and uncertainties include:

- failure to realize the anticipated strategic benefits or operational, competitive and cost synergies following the acquisition of Shoppers Drug Mart;
- failure to reduce indebtedness associated with the acquisition of Shoppers Drug Mart to bring leverage ratios to a level consistent with investment grade ratings;
- 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;
- changes in the Company's estimate of inventory cost as a result of its IT system upgrade;

- 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;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- 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;
- the risk that the Company will be unsuccessful in any material litigation, class action, or regulatory proceeding;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- the risk that the Company would experience a financial loss if its counterparties fail to meet their obligations in accordance with the terms and conditions of their contracts with the Company; and
- the inability of the Company to collect on and fund its credit card receivables.

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, including, without limitation, the section entitled "Risks" in the Company's Annual Information Form (for the year ended January 3, 2015). 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.

2. Key Financial Performance Indicators

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

As at or for the periods ended June 20, 2015 and June 14, 2014 (millions of Canadian dollars except where otherwise indicated)		**2015 (12 weeks)**		2014[3] (12 weeks)
Consolidated:				
Revenue growth		**2.2%**		37.1%
EBITDA[2]	**$**	**782**	$	(72)
Adjusted EBITDA[2]		**857**		794
Adjusted EBITDA margin[2]		**8.1%**		7.7%
Operating income (loss)	**$**	**413**	$	(456)
Adjusted operating income[2]		**612**		535
Adjusted operating margin[2]		**5.8%**		5.2%
Net earnings (loss)	**$**	**186**	$	(456)
Net earnings (loss) attributable to shareholders of the Company		**185**		(456)
Adjusted net earnings attributable to shareholders of the Company[2]		**350**		297
Basic net earnings (loss) per common share ($)	**$**	**0.45**	$	(1.13)
Adjusted basic net earnings per common share[2] ($)	**$**	**0.85**	$	0.74
Cash and cash equivalents, short term investments and security deposits		**1,344**		1,323
Cash flows from operating activities		**930**		959
Free cash flow[2]		**589**		622
Adjusted debt[2] to rolling year adjusted EBITDA[2]		**2.7x**		4.5x
Rolling year adjusted return on equity[2]		**11.1%**		8.5%
Rolling year adjusted return on capital[2]		**8.5%**		7.1%
Retail Segment:				
Total Retail segment same-store sales growth		**2.5%**		1.8%
Food retail same-store sales growth		**2.1%**		1.8%
Drug retail same-store sales growth		**3.8%**		2.5%
Gross profit	**$**	**2,711**	$	1,840
Adjusted gross profit[2]		**2,719**		2,652
Adjusted gross profit %[2]		**26.4%**		26.3%
Adjusted EBITDA margin[2]		**7.9%**		7.4%
Adjusted operating margin[2]		**5.6%**		4.9%
Financial Services Segment[4]:				
Earnings before income taxes	**$**	**22**	$	26
Annualized yield on average quarterly gross credit card receivables		**13.7%**		13.8%
Annualized credit loss rate on average quarterly gross credit card receivables		**4.7%**		4.7%
Choice Properties Segment[4]:				
Operating income	**$**	**115**	$	122
Adjusted funds from operations[2]		**77**		69

3. Consolidated Results of Operations

For the periods ended June 20, 2015 and June 14, 2014 (millions of Canadian dollars except where otherwise indicated)	2015 (12 weeks)	2014[3] (12 weeks)	$ Change	% Change	2015 (24 weeks)	2014[3] (24 weeks)	$ Change	% Change
Revenue	**$ 10,535**	$ 10,307	$ 228	2.2 %	**$ 20,583**	$ 17,599	$ 2,984	17.0%
EBITDA[2]	**$ 782**	$ (72)	$ 854	1,186.1 %	**$ 1,566**	$ 399	$ 1,167	292.5%
Adjusted EBITDA[2]	**857**	794	63	7.9 %	**1,646**	1,276	370	29.0%
Adjusted EBITDA margin[2]	**8.1%**	7.7%			**8.0%**	7.3%		
Operating income (loss)	**$ 413**	$ (456)	$ 869	190.6 %	**$ 827**	$ (180)	$ 1,007	559.4%
Adjusted operating income[2]	**612**	535	77	14.4 %	**1,155**	822	333	40.5%
Adjusted operating margin[2]	**5.8%**	5.2%			**5.6%**	4.7%		
Net interest expense and other financing charges	**$ 106**	$ 150	$ (44)	(29.3)%	**$ 298**	$ 265	$ 33	12.5%
Adjusted net interest expense and other financing charges[2]	**131**	128	3	2.3 %	**262**	216	46	21.3%
Net earnings (loss)	**$ 186**	$ (456)	$ 642	140.8 %	**$ 332**	$ (336)	$ 668	198.8%
Net earnings (loss) attributable to shareholders of the Company	**185**	(456)	641	140.6 %	**331**	(336)	667	198.5%
Adjusted net earnings attributable to shareholders of the Company[2]	**350**	297	53	17.8 %	**651**	450	201	44.7%
Basic net earnings (loss) per common share ($)	**$ 0.45**	$ (1.13)	$ 1.58	139.8 %	**$ 0.80**	$ (0.98)	$ 1.78	181.6%
Adjusted basic net earnings per common share[2] ($)	**$ 0.85**	$ 0.74	$ 0.11	14.9 %	**$ 1.58**	$ 1.32	$ 0.26	19.7%

Subsequent to the end of the second quarter of 2015, the Company finalized a restructuring plan that will result in the closure of approximately 52 unprofitable retail locations across a range of banners and formats. The Company expects that the closures will take place over the next 12 months. On an annualized basis, the closures will decrease sales by approximately $300 million but will result in a favourable impact to operating income of approximately $35 million to $40 million.

The restructuring and other related costs associated with the restructuring plan are expected to total approximately $120 million. Of this amount, a charge of $45 million was recorded in the second quarter of 2015. This amount included $30 million for severance and lease termination costs and $15 million for asset impairments associated with these retail locations. The Company expects approximately $70 million to be recognized in the third quarter of 2015, with the remainder expected to be incurred as stores close.

Also in the second quarter of 2015, the government of Alberta announced an increase in the provincial corporate income tax rate from 10% to 12%. The increase is effective July 1, 2015, but was enacted on June 19, 2015. As a result, the Company recorded a charge of $38 million in the second quarter of 2015 and year-to-date related to the re-measurement of its deferred tax liabilities.

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 Section 13 "Non-GAAP Financial Measures".

The Company's year-to-date 2015 results include the contribution of Shoppers Drug Mart. As Loblaw acquired all of the outstanding shares of Shoppers Drug Mart in the second quarter of 2014, the Company's results for the same period in 2014 include the contribution of Shoppers Drug Mart from the date of acquisition.

Revenue Revenue was $10,535 million in the second quarter of 2015, an increase of $228 million compared to the second quarter of 2014 and year-to-date revenue was $20,583 million, an increase of $2,984 million compared to the same period in 2014. These increases were primarily driven by the Retail segment.

EBITDA(2)

For the periods ended June 20, 2015 and June 14, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015 (12 weeks)**	2014(3) (12 weeks)	$ Change	% Change	**2015 (24 weeks)**	2014(3) (24 weeks)	$ Change	% Change
EBITDA(2)	**$ 782**	$ (72)	$ 854	1,186.1%	**$ 1,566**	$ 399	$ 1,167	292.5%
Adjustments to EBITDA(2)	**75**	866	(791)		**80**	877	(797)	
Adjusted EBITDA(2)	**$ 857**	$ 794	$ 63	7.9%	**$ 1,646**	$ 1,276	$ 370	29.0%

EBITDA(2) was $782 million in the second quarter of 2015, an increase of $854 million compared to the second quarter of 2014, primarily driven by the Retail segment. The increase in EBITDA(2) included a favourable year-over-year impact of a charge of $622 million relating to the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold, a charge of $190 million related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system and $52 million of Shoppers Drug Mart acquisition-related costs. These costs were adjustments to EBITDA(2). The positive impacts from 2014 were partially offset by costs incurred in the second quarter of 2015, including restructuring and other related costs of $54 million, an unfavourable fair value adjustment on fuel and foreign currency contracts of $9 million, a charge related to apparel inventory of $8 million, and an increase in net fixed asset and other related impairments of $2 million.

After excluding these adjustments, adjusted EBITDA(2) of $857 million was $63 million higher compared to the second quarter of 2014, primarily driven by the Retail segment. Adjusted EBITDA margin(2) was 8.1% for the second quarter of 2015 compared to 7.7% in the second quarter of 2014.

Year-to-date EBITDA(2) was $1,566 million, an increase of $1,167 million compared to the same period in 2014, primarily driven by the Retail segment. The increase was primarily due to the impacts from 2014 affecting the quarter as described above of $872 million and, in 2015, a $3 million favourable fair value adjustment on fuel and foreign currency contracts. These positive impacts were partially offset by restructuring and other related costs of $66 million, a charge related to apparel inventory of $8 million, a year-over-year increase in net fixed asset and other related impairments of $2 million and Shoppers Drug Mart divestitures loss of $2 million.

After excluding these adjustments, adjusted EBITDA(2) of $1,646 million was $370 million higher compared to the same period in 2014, primarily driven by the Retail segment. Year-to-date adjusted EBITDA margin(2) was 8.0% compared to 7.3% in the same period in 2014.

Operating Income

For the periods ended June 20, 2015 and June 14, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015 (12 weeks)**	2014(3) (12 weeks)	$ Change	% Change	**2015 (24 weeks)**	2014(3) (24 weeks)	$ Change	% Change
Operating income	**$ 413**	$ (456)	$ 869	190.6%	**$ 827**	$ (180)	$ 1,007	559.4%
Adjustment for the amortization of intangible assets(2)	**124**	125	(1)		**248**	125	123	
Adjustments to EBITDA(2)	**75**	866	(791)		**80**	877	(797)	
Adjusted operating income(2)	**$ 612**	$ 535	$ 77	14.4%	**$ 1,155**	$ 822	$ 333	40.5%

Operating income was $413 million in the second quarter of 2015, an increase of $869 million compared to the second quarter of 2014, primarily driven by the Retail segment. The increase in operating income included the favourable year-over-year impact of adjustments to EBITDA(2) noted above of $791 million and a $1 million decrease in amortization of intangible assets related to the acquisition of Shoppers Drug Mart.

After excluding these adjustments, adjusted operating income(2) of $612 million was $77 million higher compared to the second quarter of 2014, consisting of the $63 million increase in adjusted EBITDA(2) noted above and a decrease in depreciation and amortization(2) of $14 million, primarily driven by the Retail segment. Adjusted operating margin(2) was 5.8% compared to 5.2% in the second quarter of 2014.

Year-to-date operating income was $827 million in 2015, an increase of $1,007 million compared to the same period in 2014, primarily driven by the Retail segment. The increase in year-to-date operating income included the favourable year-over-year impact of the adjustments to EBITDA(2) noted above of $797 million, partially offset by the increase in amortization of intangible assets of $123 million related to the acquisition of Shoppers Drug Mart.

After excluding these adjustments, year-to-date adjusted operating income(2) of $1,155 million was $333 million higher compared to the same period in 2014, consisting of the $370 million increase in adjusted EBITDA(2) noted above, partially offset by an increase in depreciation and amortization(2) of $37 million, primarily driven by the Retail segment. Year-to-date adjusted operating margin(2) was 5.6% compared to 4.7% in the same period in 2014.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $106 million in the second quarter of 2015, a decrease of $44 million compared to the second quarter of 2014. The decrease included a favourable year-over-year fair value adjustment related to the Trust Unit Liability, partially offset by lower accelerated amortization of deferred financing costs over the same period, as set out in Section 13 "Non-GAAP Financial Measures".

After excluding these impacts, adjusted net interest expense and other financing charges(2) of $131 million were $3 million higher compared to the second quarter of 2014, primarily driven by an increase in Choice Properties Real Estate Investment Trust ("Choice Properties") debt and interest expenses resulting from the growth in the credit card receivables portfolio, partially offset by a reduction in interest expense due to a repayment of a portion of the Company's unsecured term loan facility ("Acquisition Term Loan") and the maturity of a medium term note ("MTN") that matured in the second quarter of 2014.

Year-to-date net interest expense and other financing charges were $298 million, an increase of $33 million compared to the same period in 2014. The increase included an unfavourable year-over-year fair value adjustment related to the Trust Unit Liability, partially offset by lower accelerated amortization of deferred financing costs and Shoppers Drug Mart acquisition-related costs incurred in the first quarter of 2014, as set out in Section 13 "Non-GAAP Financial Measures".

After excluding these impacts, year-to-date adjusted net interest expense and other financing charges(2) of $262 million in 2015 were $46 million higher compared to the same period in 2014, primarily driven by an increase in Choice Properties debt, lower interest income as a result of the year-over-year decline in cash and cash equivalents and short term investments, higher interest expense on the Acquisition Term Loan subsequent to the acquisition of Shoppers Drug Mart and interest on the Shoppers Drug Mart debt assumed on the acquisition, partially offset by lower net interest due to repayment of MTNs.

Income Taxes Income tax expense for the second quarter of 2015 was $121 million and the effective tax rate was 39.4%. Income tax recovered for the second quarter of 2014 was $150 million and the effective tax rate was 24.8%. The increase in the effective tax rate was primarily attributable to the increase in deferred tax expense as a result of the increase in the Alberta statutory corporate income tax rate enacted during the second quarter of 2015. The adjusted income tax expense(2) for the second quarter of 2015 was $130 million and the adjusted income tax rate(2) was 27.0%. Adjusted income tax expense(2) for the second quarter of 2014 was $110 million and the adjusted income tax rate(2) was 27.0%. The current tax impact of the increase in the Alberta statutory corporate income tax rate on the adjusted income tax expense(2) was offset by a decrease in certain non-deductible items.

Year-to-date income tax expense was $197 million in 2015 and the effective tax rate was 37.2%. Year-to-date income tax recovered for 2014 was $109 million and the effective tax rate was 24.5%. The increase in the effective tax rate was primarily attributable to an increase in deferred tax expense as a result of an increase in the Alberta statutory corporate income tax rate enacted during the second quarter of 2015 and a decrease in certain non-taxable items. The year-to-date adjusted income tax expense(2) was $241 million in 2015 and the adjusted income tax rate(2) was 27.0%. The adjusted income tax expense(2) for the same period in 2014 was $156 million and the adjusted income tax rate(2) was 25.7%. The increase in the adjusted income tax rate(2) was primarily attributable to the current tax impact of the increase in the Alberta statutory corporate income tax rate and a decrease in certain non-taxable items.

In 2012, the Company received indication from the Canada Revenue Agency (the "CRA") that the CRA intended to proceed with reassessments of the tax treatment of the Company's wholly owned 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.

During the second quarter of 2015, the Company received reassessments from the CRA and the Ontario Ministry of Finance for the 2000 to 2010 taxation years totaling $341 million including interest and penalties. The Company believes it is likely that the CRA will issue reassessments for the 2011 to 2013 taxation years on the same or similar basis. The Company strongly disagrees with the CRA's position and has filed a Notice of Appeal. No amount for any reassessments has been provided for in the Company's unaudited interim period condensed consolidated financial statements.

Net Earnings Attributable to Shareholders of the Company Net earnings attributable to shareholders of the Company were $185 million in the second quarter of 2015, an increase of $641 million compared to the second quarter of 2014. Adjusted net earnings attributable to shareholders of the Company(2) of $350 million were $53 million higher compared to the second quarter of 2014.

Year-to-date net earnings attributable to shareholders were $331 million, an increase of $667 million compared to the same period in 2014, and year-to-date adjusted net earnings attributable to shareholders of the Company(2) of $651 million were $201 million higher compared to the same period in 2014.

Basic Net Earnings Per Common Share Basic net earnings per common share for the second quarter of 2015 were $0.45 compared to a basic net loss per common share of a $1.13 in the second quarter of 2014. Basic net earnings per common share in the second quarter of 2015 included, on a per share basis, the negative impacts of the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $0.23, restructuring and other related costs of $0.11, a provincial statutory corporate income tax rate change of $0.09, net fixed asset and other related impairments of $0.01 and certain other adjustments of $0.04. These negative impacts were partially offset by the favourable fair value adjustment related to the Trust Unit Liability for Choice Properties' Trust Units ("Units") of $0.08. Basic net loss per common share in the second quarter of 2014 also included, on a per share basis, the negative impacts of the recognition of the fair value increment on inventory sold of $1.14, a charge related to inventory measurement and other conversion differences of $0.35, the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $0.23, Shoppers Drug Mart acquisition-related costs of $0.11 and certain other adjustments of $0.04.

Adjusted basic net earnings per common share(2) were $0.85 in the second quarter of 2015 compared to $0.74 in the second quarter of 2014. This increase was primarily due to the increase in adjusted net earnings attributable to shareholders of the Company(2) described above, partially offset by the higher weighted average common shares in the second quarter of 2015 compared to the same quarter in 2014.

On a year-to-date basis, basic net earnings per common share were $0.80 for 2015 compared to a basic net loss per common share of $0.98 in the same period in 2014. Year-to-date basic net earnings per common share for 2015 included, on a per share basis, the negative impacts of the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $0.45, restructuring and other related costs of $0.14, a provincial statutory corporate income tax rate change of $0.09, the unfavourable fair value adjustment related to the Trust Unit Liability of the Units of $0.06 and certain other adjustments of $0.04. Year-to-date basic net loss per common share for 2014 included, on a per share basis, the negative impacts of the recognition of the fair value increment on inventory sold of $1.33, the charge related to inventory measurement and other conversion differences of $0.41, the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $0.27, Shoppers Drug Mart acquisition-related costs of $0.19, the unfavourable fair value adjustment related to the Trust Unit Liability for the change in fair value of Units of $0.06 and certain other adjustments of $0.04.

Year-to-date adjusted basic net earnings per common share(2) for 2015 were $1.58 compared to $1.32 in the same period in 2014. The increase was primarily due to the increase in adjusted net earnings(2) 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, as well as 10.5 million common shares issued to George Weston Limited ("Weston") in relation to the acquisition.

4. Reportable Operating Segments Results of Operations

4.1 Retail Segment

For the periods ended June 20, 2015 and June 14, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015 (12 weeks)**	2014[3] (12 weeks)	$ Change	% Change	**2015 (24 weeks)**	2014[3] (24 weeks)	$ Change	% Change
Sales	**$ 10,318**	$ 10,097	$ 221	2.2%	**$ 20,148**	$ 17,192	$ 2,956	17.2%
Gross profit	**2,711**	1,840	871	47.3%	**5,335**	3,443	1,892	55.0%
Adjusted gross profit[2]	**2,719**	2,652	67	2.5%	**5,343**	4,255	1,088	25.6%
EBITDA[2]	**739**	(117)	856	731.6%	**1,473**	313	1,160	370.6%
Adjusted EBITDA[2]	**814**	749	65	8.7%	**1,553**	1,189	364	30.6%
Operating income (loss)	**375**	(496)	871	175.6%	**745**	(256)	1,001	391.0%
Adjusted operating income[2]	**574**	495	79	16.0%	**1,073**	745	328	44.0%

For the periods ended June 20, 2015 and June 14, 2014	**2015 (12 weeks)**	2014[3] (12 weeks)	**2015 (24 weeks)**	2014[3] (24 weeks)
Total Retail segment same-store sales growth	**2.5%**	1.8%	**2.4%**	N/A
Food retail same-store sales growth	**2.1%**	1.8%	**2.0%**	1.3%
Drug retail same-store sales growth	**3.8%**	2.5%	**3.4%**	1.9%
Adjusted gross profit %[2]	**26.4%**	26.3%	**26.5%**	24.7%
Adjusted EBITDA margin[2]	**7.9%**	7.4%	**7.7%**	6.9%
Adjusted operating margin[2]	**5.6%**	4.9%	**5.3%**	4.3%

Sales Retail segment sales were $10,318 million in the second quarter of 2015, an increase of $221 million compared to the second quarter of 2014. Food retail sales of $7,629 million were higher by $141 million, or 1.9%,compared to the second quarter of 2014. Drug retail sales of $2,689 million were higher by $80 million, or 3.1%. The increase in Retail segment sales was primarily due to the following factors:

- Food retail (Loblaw) same-store sales growth for the quarter was 4.2%, after excluding gas bar (1.2%) and the negative impact of a change in distribution model by a tobacco supplier (0.9%). Including these impacts, food retail same-store sales growth was 2.1% (2014 – 1.8%).
  - The Company's food retail average quarterly internal food price index was higher than (2014 – in line with) the average quarterly national food price inflation of 3.9% (2014 – 2.5%) as measured by The Consumer Price Index for Food Purchased from Stores ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores;
  - Sales growth in food was strong;
  - Sales growth in pharmacy and health and beauty was moderate;
  - Sales in gas bar declined significantly, primarily driven by the decline in gas prices;
  - Sales in general merchandise, excluding apparel, were flat; and
  - Sales growth in retail apparel was moderate, while U.S. wholesale apparel sales declined.
- Drug retail (Shoppers Drug Mart) sales for the quarter were comprised of pharmacy sales of $1,274 million (2014 – $1,238 million) and front store sales of $1,415 million (2014 – $1,371 million).
  - Drug retail same-store sales growth for the quarter was 3.8% (2014 – 2.5%);
  - Same-store pharmacy sales growth was 3.9% (2014 – 2.5%);
    - the number of prescriptions dispensed increased by 4.3% (2014 – 4.1%). On a same-store basis, the number of prescriptions dispensed increased by 5.0% (2014 – 3.8%) and, year-over-year, the average prescription value decreased by 0.5% (2014 – 1.7%);
    - generic molecules comprised 64.6% of the prescriptions dispensed in the second quarter of 2015 compared to 62.8% in the second quarter of 2014; and
  - Same-store front store sales growth was 3.7% (2014 – 2.4%).

- 48 food and drug stores were opened and 29 food and drug stores were closed in the 12 months ended June 20, 2015, with an additional two franchise food retail stores and 16 drug stores divested pursuant to a Consent Agreement with the Competition Bureau related to the acquisition of Shoppers Drug Mart, resulting in no change to square footage. Excluding the divestitures, net square footage increased by 0.3 million square feet, or 0.4%.
- In 2014, the Company restructured its fee arrangements with the franchisees of certain franchise banners. The revised arrangements are expected to result in an annual reduction of food retail segment sales and gross profit of approximately $150 million, with a corresponding decrease in selling, general and administrative expenses ("SG&A"). In the second quarter of 2015, the impact of the restructuring was a $33 million negative impact to food retail sales and gross profit, with an offsetting $33 million positive impact to SG&A.

On a year-to-date basis, retail sales were $20,148 million, an increase of $2,956 million compared to the same period in 2014 and included $2,596 million of retail sales contributed by Shoppers Drug Mart in the first quarter of 2015. Year-to-date food retail sales of $14,863 million were higher by $280 million, or 1.9%, including the negative impact of restructuring certain franchise fee arrangements of $66 million, while drug retail sales of $5,285 million were higher by $2,676 million, or 102.6%.Year-to-date food retail same-store sales growth was 4.0% after excluding gas bar (1.2%) and the negative impact of a change in distribution model by a tobacco supplier (0.8%). Including these impacts, year-to-date food retail same-store sales growth was 2.0% (2014 – 1.3%). The increase in year-to-date drug retail sales was primarily driven by the contribution of Shoppers Drug Mart in the first quarter of 2015 of $2,596 million. Year-to-date drug retail same-store sales growth was 3.4%, driven by same-store pharmacy sales growth of 3.7% and same-store front sales growth of 3.2%.

Gross Profit Gross profit was $2,711 million in the second quarter of 2015, an increase of $871 million compared to the second quarter of 2014. The increase in gross profit was driven by higher sales, as described above, an increase in adjusted gross profit percentage(2) and the favourable year-over-year impact of charges of $622 million relating to the recognition of the fair value increment on Shoppers Drug Mart inventory sold and $190 million related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system recorded in the second quarter of 2014, partially offset by a charge related to apparel inventory in the second quarter of 2015 of $8 million.

Adjusted gross profit(2) of $2,719 million was $67 million higher compared to the second quarter of 2014, driven by higher sales and an increase in adjusted gross profit percentage(2) of 10 basis points to 26.4%. The increase in adjusted gross profit percentage(2) included a 30 basis point negative impact from the restructuring certain franchise fee arrangements. After excluding this negative impact, adjusted gross profit percentage(2) was 26.7% compared to 26.3% in the second quarter of 2014. The increase was primarily driven by the achievement of operational synergies.

Food retail adjusted gross profit percentage(2) decreased by 30 basis points compared to the second quarter of 2014. After excluding the negative impact from restructuring certain franchise fee arrangements, food retail adjusted gross profit percentage(2) increased by 20 basis points, as higher retail margins, lower transportation costs and operational synergies were partially offset by higher shrink. Drug retail adjusted gross profit percentage(2) increased by 90 basis points compared to the second quarter of 2014. The increase in Drug retail adjusted gross profit percentage(2) was primarily driven by operational synergies.

On a year-to-date basis, gross profit was $5,335 million, an increase of $1,892 million compared to the same period in 2014.The increase year-to-date gross profit was driven by higher sales as described above, an increase in adjusted gross profit percentage(2) and the favourable year-over-year impact of certain adjustments as described above.

Year-to-date adjusted gross profit(2) of $5,343 million increased by $1,088 million and adjusted gross profit percentage(2) was 26.5% compared to 24.7% for the same period in 2014. The increase in year-to-date adjusted gross profit percentage(2) was impacted by the contribution of Shoppers Drug Mart in the first quarter of 2015 of $1,024 million, partially offset by the negative impact from restructuring certain franchise fee arrangements, as noted above. Excluding these two impacts, adjusted gross profit percentage(2) was 25.0% compared to 24.7% in the same period in 2014. The increase was primarily driven by the achievement of operational synergies.

Year-to-date food retail adjusted gross profit percentage(2) decreased by 30 basis points compared to the same period in 2014. After excluding the negative impact from restructuring certain franchise fee arrangements, food retail adjusted gross profit percentage(2) increased by 10 basis points, as higher retail margins, lower transportation costs and operational synergies were partially offset by higher shrink.

EBITDA(2) EBITDA(2) was $739 million in the second quarter of 2015, an increase of $856 million compared to the second quarter of 2014. The increase in EBITDA(2) included the favourable year-over-year impact of the items described above in gross profit. Other significant adjustments during the second quarter of 2015 included restructuring and other related costs, the unfavourable fair value adjustment on fuel and foreign currency contracts and a charge related to apparel inventory.

After excluding these adjustments, adjusted EBITDA(2) of $814 million was $65 million higher compared to the second quarter of 2014, driven by the increase in adjusted gross profit(2) described above and an increase in SG&A of $2 million. The increase in SG&A was positively impacted by the restructuring of certain franchise fee arrangements. Excluding this positive impact, SG&A increased by $35 million over the prior year and the SG&A percentage was unchanged at 18.8%. The increase in SG&A was due to higher store and store support costs, primarily driven by higher sales volumes and the impact of franchise consolidation, partially offset by lower charges related to the transition of certain food retail stores to more cost effective and efficient operating terms under collective agreements, efficiencies achieved in food retail supply chain, administration and information technology ("IT"), and positive changes in the value of the Company's investments in its franchise business.

Adjusted EBITDA margin(2) was 7.9% compared to 7.4% in the second quarter of 2014.

Year-to-date EBITDA(2) was $1,473 million, an increase of $1,160 million compared to the same period in 2014. The increase in EBITDA(2) included the favourable year-over-year impact of $796 million as set out in Section 13 "Non-GAAP Financial Measures". Significant adjustments in 2015 included restructuring and other related costs, a charge related to apparel inventory and net fixed asset and other related impairments.

After excluding these adjustments, year-to-date adjusted EBITDA(2) of $1,553 million was $364 million higher compared to the same period in 2014, primarily driven by the increase in year-to-date adjusted gross profit described above, partially offset by a year-to-date increase in SG&A of $724 million. The increase in SG&A was impacted by the contribution of Shoppers Drug Mart in the first quarter of 2015, partially offset by the positive impact of restructuring certain franchise fee arrangements. Excluding these two impacts, SG&A increased by $36 million over the prior year, which represented a decrease of 0.1% as a percentage of sales. The increase in SG&A was due to higher store and store support costs, primarily driven by higher sales volumes, and the impact of franchise consolidation, partially offset by lower charges related to the transition of certain food retail stores to more cost effective and efficient operating terms under collective agreements, efficiencies achieved in food retail supply chain, administration and IT, and positive changes in the value of the Company's investments in its franchise business.

On a year-to-date basis, adjusted EBITDA margin(2) was 7.7% compared to 6.9% in the same period in 2014. The increase was impacted by the contribution of Shoppers Drug Mart.

Operating Income Operating income was $375 million in the second quarter of 2015, an increase of $871 million compared to the second quarter of 2014. The increase in operating income included the favourable year-over-year impact of the items described above in gross profit and the decrease in amortization of intangible assets acquired with Shoppers Drug Mart of $1 million.

After excluding these adjustments, adjusted operating income(2) of $574 million was $79 million higher compared to the second quarter of 2014, driven by the increase in adjusted EBITDA(2) of $65 million and a decrease in Retail segment depreciation and amortization(2) of $14 million.The decrease in Retail segment depreciation and amortization was the result of an increase in the estimated useful life of certain IT systems, as well as lower IT and supply chain depreciation. The increase in adjusted operating income(2) included an increase in food retail operating income, partially offset by a decrease in drug retail operating income, in both cases excluding synergies.

Adjusted operating margin(2) was 5.6% compared to 4.9% in the second quarter of 2014.

Year-to-date operating income was $745 million, an increase of $1,001 million compared to the same period in 2014. The increase in year-to-date operating income included the favourable year-over-year impact of adjustments in relation to year-to-date EBITDA(2) noted above of $796 million, partially offset by the increase in amortization of intangible assets recorded on the acquisition of Shoppers Drug Mart of $123 million.

After excluding these adjustments, year-to-date adjusted operating income(2) of $1,073 million was $328 million higher compared to the same period in 2014, consisting of the increase in adjusted EBITDA(2) of $364 million, partially offset by an increase in Retail segment depreciation and amortization(2) of $36 million.The increase in Retail segment depreciation was impacted by the contribution of Shoppers Drug Mart in the first quarter of 2015 of $60 million.

Year-to-date adjusted operating margin(2) was 5.3% compared to 4.3% in the same period in 2014. The increase was impacted by the contribution of Shoppers Drug Mart and the factors discussed above.

4.2 Financial Services Segment(4)

For the periods ended June 20, 2015 and June 14, 2014 (millions of Canadian dollars except where otherwise indicated)	2015 (12 weeks)	2014 (12 weeks)	$ Change	% Change	2015 (24 weeks)	2014 (24 weeks)	$ Change	% Change
Revenue	**$ 199**	$ 192	$ 7	3.6 %	**$ 398**	$ 372	$ 26	7.0%
Operating income	**36**	38	(2)	(5.3)%	**78**	74	4	5.4%
Earnings before income taxes	**22**	26	(4)	(15.4)%	**50**	49	1	2.0%

(millions of Canadian dollars except where otherwise indicated)	As at June 20, 2015	As at June 14, 2014	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,585**	$ 2,499	$ 86	3.4%
Credit card receivables	**2,647**	2,561	86	3.4%
Allowance for credit card receivables	**48**	48	—	—%
Annualized yield on average quarterly gross credit card receivables	**13.7%**	13.8%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.7%**	4.7%		

The results for the Financial Services segment are for the periods ended June 30, 2015 and June 30, 2014, consistent with the segment's fiscal calendar. Adjustments to align Financial Services' results to June 20, 2015 and June 14, 2014 are included in Consolidation and Eliminations. See Section 13 "Non-GAAP Financial Measures" and Note 21 "Segment Information" in the Company's second quarter 2015 unaudited interim period condensed consolidated financial statements.

Revenue Revenue was $199 million in the second quarter of 2015, an increase of $7 million, or 3.6%, compared to the second quarter of 2014. The increase was partially driven by higher interchange income from higher loyalty points redemptions and credit card transaction volumes, partially offset by a reduction in interchange rates by MasterCard® International Incorporated in the second quarter of 2015. The increase was also driven by higher interest income from increased credit card receivable balances and an increase in *PC* Telecom revenue from higher Mobile Shop sales.

Year-to-date revenue was $398 million, an increase of $26 million, or 7.0%, compared to the same period in 2014, primarily driven by higher interchange income as a result of higher loyalty points redemptions and credit card transaction volumes, higher interest income from increased credit card receivable balances and an increase in *PC* Telecom revenue from higher Mobile Shop sales.

Operating Income and Earnings Before Income Taxes Operating income was $36 million in the second quarter of 2015 and earnings before income taxes were $22 million, a decrease of $2 million and $4 million, respectively, compared to the second quarter of 2014. The decrease in operating income was primarily driven by higher costs associated with the Financial Services loyalty program, higher customer acquisition expenses, partially offset by the interchange income described above and a lower required allowance for credit card receivables. The decrease in earnings before income taxes was primarily driven by lower operating income and higher interest expenses resulting from growth in the credit card receivables portfolio.

On a year-to-date basis, operating income and earnings before income taxes were $78 million and $50 million, respectively, an increase of $4 million and $1 million, respectively, compared to the same period in 2014. These increases were primarily driven by the higher revenue as described above and lower credit card losses, partially offset by higher costs associated with the Financial Services loyalty program, higher operating costs, as a result of an increase in the active customer base and the depreciation of the Canadian dollar, and higher customer acquisition expenses.

Credit Card Receivables As at June 20, 2015, credit card receivables were $2,647 million, an increase of $86 million compared to June 14, 2014. This increase was primarily driven by a growth in the active customer base from continued investments in customer acquisitions and marketing initiatives, partially offset by higher customer payment rates. As at June 20, 2015, the allowance for credit card receivables was $48 million, flat compared to June 14, 2014.

4.3 Choice Properties Segment[4]

For the periods ended June 20, 2015 and June 14, 2014 (millions of Canadian dollars except where otherwise indicated)	2015 (12 weeks)	2014 (12 weeks)	$ Change	% Change	2015 (24 weeks)	2014 (24 weeks)	$ Change	% Change
Revenue	**$ 183**	$ 170	$ 13	7.6 %	**$ 365**	$ 337	$ 28	8.3%
Operating income	**115**	122	(7)	(5.7)%	**242**	240	2	0.8%
Net interest expense and other financing charges	**(75)**	124	(199)	(160.5)%	**264**	250	14	5.6%
Adjusted funds from operations[2]	**77**	69	8	11.6 %	**152**	138	14	10.1%

The results for the Choice Properties segment are for the periods ended June 30, 2015 and June 30, 2014, consistent with the segment's fiscal calendar. Adjustments to align Choice Properties' results to June 20, 2015 and June 14, 2014 are included in Consolidation and Eliminations. See Section 13 "Non-GAAP Financial Measures" and Note 21 "Segment Information" in the Company's second quarter 2015 unaudited interim period condensed consolidated financial statements.

Revenue Revenue was $183 million in the second quarter of 2015, an increase of $13 million, or 7.6%, compared to the second quarter of 2014, and included $165 million (2014 – $152 million) generated from tenants within the Retail segment.

Year-to-date revenue was $365 million, an increase of $28 million, or 8.3%, compared to the same period in 2014, and included $328 million (2014 – $302 million) generated from tenants within the Retail segment.

The increase in revenue in the second quarter of 2015 and year-to-date was primarily driven by revenue from properties acquired subsequent to the second quarter of 2014, as well as an increase in the base rent of existing properties.

Operating Income Operating income was $115 million in the second quarter of 2015, a decrease of $7 million compared to the second quarter of 2014. The decrease in operating income was primarily driven by an unfavourable fair value adjustment on investment properties and higher recoverable property taxes and operating costs, partially offset by the higher revenue as described above.

Year-to-date operating income was $242 million, an increase of $2 million compared to the same period in 2014. The increase was primarily driven by higher revenue as described above, partially offset by an unfavourable fair value adjustment on investment properties and higher recoverable property taxes and operating costs.

Net Interest Expense and Other Financing Charges Net interest income and other financing charges were $75 million in the second quarter of 2015, compared to net interest expense and other financing charges of $124 million in the second quarter of 2014. The year-over-year decrease of $199 million in net interest expense and other financing charges was primarily driven by a favourable fair value adjustment on Class B Limited Partnership units and a non-cash finance charge incurred in 2014 related to the early repayment of the transferor notes, partially offset by higher interest expense due to the issuance of $250 million of senior unsecured debentures in the first quarter of 2015.

Year-to-date net interest expense and other financing charges were $264 million, an increase of $14 million compared to the same period in 2014, primarily driven by an unfavourable fair value adjustment on Class B Limited Partnership units, higher interest expense due to the issuance of Series E senior unsecured debentures in the first quarter of 2015, partially offset by the non-cash finance charge incurred in 2014 related to the early repayment of the transferor notes.

Adjusted Funds from Operations[2] Adjusted funds from operations[2] were $77 million in the second quarter of 2015, an increase of $8 million compared to the second quarter of 2014, primarily driven by higher net property income.

Year-to-date adjusted funds from operations[2] were $152 million, an increase of $14 million compared to the same period in 2014, primarily driven by higher net property income. This increase was partially offset by an increase in normalized sustaining property and leasing capital expenditures, resulting from a larger investment property portfolio.

In the second quarter of 2015, Choice Properties acquired 38 investment properties from the Company for a purchase price of approximately $203 million, excluding acquisition costs, settled through the issuance of 9,237,166 Class B Limited Partnership units and $102 million in cash. In the first quarter of 2015, Choice Properties also acquired two properties from the Company for a purchase price of approximately $91 million, excluding acquisition costs, which were settled through the issuance of 265,665 Class B Limited Partnership units and $88 million in cash.

As at June 20, 2015, the Company's effective ownership interest in Choice Properties was 83.1%.

Additional information about Choice Properties is available online at www.sedar.com.

5. Other Business Matters

Consolidation of Franchises In 2015, the Company implemented a new franchise agreement ("Franchise Agreement") for its franchised retail food stores. All new franchises will be subject to the Franchise Agreement. Existing franchises will be converted to the Franchise Agreement as the existing agreements expire. Under the terms of the Franchise Agreement, the Company has determined it should consolidate the franchises, in accordance with IFRS 10, Consolidated Financial Statements. As at June 20, 2015, 16 franchisees were consolidated. There was no significant impact on the Company's operating income or net earnings in the unaudited interim period condensed consolidated financial statements as a result of the consolidation of the franchises.

6. Liquidity and Capital Resources

6.1 Cash Flows

Major Cash Flow Components

For the periods ended June 20, 2015 and June 14, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015 (12 weeks)**	2014(3) (12 weeks)	$ Change	% Change	**2015 (24 weeks)**	2014(3) (24 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 1,013**	$ 2,537	$ (1,524)	(60.1)%	**$ 999**	2,260	(1,261)	(55.8)%
Cash flows from (used in):								
Operating activities	**930**	959	(29)	(3.0)%	**1,447**	913	534	58.5 %
Investing activities	**(241)**	(5,286)	5,045	95.4 %	**(512)**	(5,132)	4,620	90.0 %
Financing activities	**(415)**	2,970	(3,385)	(114.0)%	**(654)**	3,136	(3,790)	(120.9)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(2)**	(1)	(1)	(100.0)%	**5**	2	3	150.0 %
Cash and cash equivalents, end of period	**$ 1,285**	$ 1,179	$ 106	9.0 %	**$ 1,285**	$ 1,179	$ 106	9.0 %

Cash Flows from Operating Activities Cash flows from operating activities were $930 million in the second quarter of 2015 compared to $959 million in the second quarter of 2014. The decrease was primarily due to an unfavourable quarter-over-quarter change in non-cash working capital, partially offset by higher cash earnings. On a year-to-date basis, cash flows from operating activities were $1,447 million compared to $913 million in the same period in 2014. The increase was primarily due to higher cash earnings and a positive year-over-year change in trade payables, primarily due to timing of payments.

Cash Flows used in Investing Activities Cash flows used in investing activities were $241 million in the second quarter of 2015 compared to $5,286 million in the second quarter of 2014. On a year-to-date basis, cash flows used in investing activities were $512 million compared to $5,132 million in the same period in 2014. These decreases were primarily due to cash used in the acquisition of Shoppers Drug Mart in the second quarter of 2014, partially offset by a reduction of security deposits which were used to partially fund the acquisition.

Capital Investments and Store Activity

As at or for the periods ended June 20, 2015 and June 14, 2014	**2015 (24 weeks)**	2014 (24 weeks)	% Change
Capital investments(3) (millions of Canadian dollars)	**$ 452**	$ 356	27.0 %
Corporate square footage (in millions)	**36.6**	37.3	(1.9)%
Franchise square footage (in millions)	**15.7**	15.1	4.0 %
Associate-owned drug store square footage (in millions)	**17.7**	17.6	0.6 %
Total retail square footage (in millions)	**70.0**	70.0	— %
Number of corporate stores(i)	**609**	624	(2.4)%
Number of franchise stores	**527**	511	3.1 %
Number of Associate-owned drug stores	**1,306**	1,306	— %
Total number of stores	**2,442**	2,441	— %
Percentage of corporate real estate owned	**72%**	72%	
Percentage of franchise real estate owned	**45%**	45%	
Percentage of Associate-owned drug store real estate owned	**2%**	2%	
Average store size (square feet)			
Corporate	**60,100**	59,800	0.5 %
Franchise	**29,800**	29,500	1.0 %
Associate-owned drug store	**13,600**	13,500	0.7 %

Cash Flows (used in) from Financing Activities During the second quarter of 2015, cash flows used in financing activities were $415 million compared to cash flows from financing activities of $2,970 million in the second quarter of 2014. On a year-to-date basis, cash flows used in financing activities were $654 million compared to cash flow from financing activities of $3,136 million in the same period in 2014. Cash flows used in financing activities in 2015 were primarily driven by net repayments of long term debt and interest and dividend payments, partially offset by cash proceeds from the issuance of preferred shares in the second quarter of 2015. In the prior year, cash flows from financing activities were primarily driven by net issuances of long term debt and cash proceeds from the issuance of common shares to fund the acquisition of Shoppers Drug Mart, partially offset by interest and dividends payments.

In the second quarter of 2015, significant changes in long term debt included:

- Net repayments on unsecured term loan facilities of $412 million; and
- Net borrowings of $86 million under Choice Properties' $500 million senior unsecured committed credit facility (the "Choice Properties Credit Facility").

In the second quarter of 2014, significant changes in long term debt included:

- Borrowings on the unsecured term loan facility ("Acquisition Term Loan") of $3,500 million and repayments of $1,600 million;
- Issuance of $1,500 million of replacement notes related to the Choice Properties Transferor Notes;
- Repayment of the outstanding $478 million balance of the Shoppers Drug Mart revolving bank credit facility; and
- Repayment of the Company's $350 million MTN upon maturity.

Year-to-date 2015, significant changes in long term debt included:

- Net repayments on unsecured term loan facilities of $619 million;
- Issuance of $250 million aggregate principal amount of senior unsecured debentures by Choice Properties; and
- Net repayments of $36 million under the Choice Properties Credit Facility.

Year-to-date 2014, significant changes in long term debt included:

- Borrowings on the Acquisition Term Loan of $3,500 million and repayments of $1,600 million;
- Issuance of $1,500 million of replacement notes related to the Choice Properties Transferor Notes;
- Repayment of the outstanding $478 million balance of the Shoppers Drug Mart revolving bank credit facility;
- Issuance of $450 million aggregate principal amount of senior unsecured debentures by Choice Properties; and
- Repayment of $450 million of the Company's MTNs upon maturity.

Free Cash Flow[(2)]

For the periods ended June 20, 2015 and June 14, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015 (12 weeks)**	2014[(3)] (12 weeks)	$ Change	% Change	**2015 (24 weeks)**	2014[(3)] (24 weeks)	$ Change	% Change
Free cash flow[(2)]	**$ 589**	$ 622	$ (33)	(5.3)%	**$ 733**	$ 340	$ 393	115.6%

In the second quarter of 2015, free cash flow[(2)] was $589 million compared to $622 million in the second quarter of 2014. The decrease was primarily driven by the decrease in cash flows from operating activities and higher interest payments, partially offset by lower capital investments. On a year-to-date basis, free cash flow[(2)] was $733 million compared to $340 million in the same period in 2014. The increase was primarily driven by higher cash flows from operating activities, partially offset by higher capital investments and interest payments.

6.2 Liquidity and Capital Structure

The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against committed credit facilities will enable the Company to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital, pension plan funding requirements, financial obligations and debt reduction target. Choice Properties expects to obtain long term financing for the acquisition of accretive properties primarily through the issuance of equity and unsecured debentures.

The Company and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at June 20, 2015 and throughout the first half of 2015, the Company and Choice Properties were in compliance with these covenants.

Adjusted Debt[(2)] During the second quarter of 2015, adjusted debt[(2)] decreased by $323 million, primarily driven by net repayments on unsecured term loan facilities, partially offset by net borrowings under the Choice Properties Credit Facility.

On closing of the acquisition of Shoppers Drug Mart, adjusted debt[(2)] was $11,060 million. The Company has decreased adjusted debt[(2)] by $1,345 million since the closing of the acquisition, resulting in an outstanding adjusted debt[(2)] balance of $9,715 million as at June 20, 2015. The reduction in adjusted debt[(2)] since closing included the net repayments on the Company's unsecured term loan facilities and the repayment of a $350 million MTN, partially offset by increases in other indebtedness.

Adjusted Debt[(2)] to Rolling Year Adjusted EBITDA[(2)]

	As at June 20, 2015	As at June 14, 2014[(3)]	As at January 3, 2015[(3)]
Adjusted debt[(2)] to rolling year adjusted EBITDA[(2)]	**2.7x**	4.5x	3.1x

The Company monitors its adjusted debt[(2)] to rolling year adjusted EBITDA[(2)] ratio as a measure to ensure it is operating under an efficient capital structure. The adjusted debt[(2)] to rolling year adjusted EBITDA[(2)] ratio decreased compared to June 14, 2014 and January 3, 2015 as a result of the increase in adjusted EBITDA[(2)] due to the full year inclusion of Shoppers Drug Mart adjusted EBITDA[(2)] and the debt reduction progress since the acquisition. The Company will continue to target leverage ratios consistent with those of investment grade ratings.

Unsecured Term Loan Facilities In the second quarter of 2015, the Company obtained $250 million through an unsecured term loan facility bearing interest at a rate equal to the Bankers' Acceptance rate plus 1.13%, maturing March 30, 2019.

In connection with the financing of the acquisition of Shoppers Drug Mart, the Company obtained a $3,500 million Acquisition Term Loan. As at June 20, 2015, the outstanding balance on the Acquisition Term Loan was $360 million (June 14, 2014 – $1,900 million, January 3, 2015 – $1,229 million). During the second quarter of 2015 and year-to-date, the Company repaid $662 million and $869 million of the Acquisition Term Loan, respectively. Since the acquisition, the Company has repaid $3,140 million of Acquisition Term Loan, including the use of net proceeds of $1,500 million from the sale of Choice Properties Transferor Notes to third parties and proceeds from the $250 million unsecured term loan obtained in the second quarter of 2015, both of which had a neutral impact on long term debt. Also included in the total amount repaid was $66 million of net proceeds from the store divestitures required pursuant to the Consent Agreement with the Competition Bureau related to the acquisition of Shoppers Drug Mart.

Choice Properties Debentures In the first quarter 2015, Choice Properties issued $250 million aggregate principal amount of Series E senior unsecured debentures. These debentures bear interest at a rate of 2.30% per annum and mature on September 14, 2020. The offering was made under Choice Properties' Short Form Base Shelf Prospectus. Choice Properties used these proceeds to repay existing debt and for general business purposes.

Committed Credit Facilities As at June 20, 2015, June 14, 2014 and January 3, 2015, there were no amounts drawn under the Company's $1,000 million committed credit facility ("Credit Facility"). In the first quarter of 2015, the Company amended its Credit Facility agreement to extend the maturity date to March 31, 2020, with all other terms and conditions remaining substantially the same.

As at June 20, 2015, Choice Properties had drawn $86 million (June 14, 2014 – $37 million; January 3, 2015 – $122 million) under its $500 million senior unsecured committed credit facility. Subsequent to the end of the second quarter of 2015, Choice Properties extended the maturity date of this facility to July 5, 2020.

President's Choice Bank Securities Portfolio In 2014, the Office of the Superintendent of Financial Institutions ("OSFI") released the final Liquidity Adequacy Requirements ("LARs") Guideline. The LARs Guideline establishes standards based on the Basel III framework and includes a Liquidity Coverage Ratio ("LCR") standard effective January 1, 2015. The standard specifies the level of liquid securities that President's Choice Bank ("PC Bank") is required to maintain to meet its financial liabilities. As at the end of the second quarter of 2015, PC Bank was in compliance with the LCR standard.

Short Form Base Shelf Prospectus In the first quarter of 2015, the Company filed a Short Form Base Shelf Prospectus ("Base Prospectus") for the potential issuance of up to $1,500 million of debentures and/or preferred shares. The Base Prospectus expires in 2017. In the second quarter of 2015, the Company issued $225 million of preferred shares, as described in Section 6.6 "Share Capital".

6.3 Financial Condition

Rolling Year Adjusted Return on Equity(2) and Rolling Year Adjusted Return on Capital(2)

	As at June 20, 2015	As at June 14, 2014(3)	As at January 3, 2015(3)
Rolling year adjusted return on equity(2)	**11.1%**	8.5%	12.3%
Rolling year adjusted return on capital(2)	**8.5%**	7.1%	10.4%

The rolling year adjusted return on equity(2) and the rolling year adjusted return on capital(2) as at June 20, 2015 increased compared to June 14, 2014, primarily due to the full year contribution of Shoppers Drug Mart, partially offset by the post-acquisition Shoppers Drug Mart capital being fully reflected. The rolling year adjusted return on equity(2) and the rolling year adjusted return on capital(2) as at June 20, 2015 declined compared to January 3, 2015 as the full year contribution of Shoppers Drug Mart is offset by post-acquisition Shoppers Drug Mart capital being fully reflected in the rolling-year ratios.

6.4 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
Second Preferred Shares, Series A	Pfd-3	Stable	P-3 (high)	n/a
Second Preferred Shares, Series B	Pfd-3	Stable	P-3 (high)	n/a

In the second quarter of 2015, the Company's Second Preferred Shares, Series B were rated by Dominion Bond Rating Service and Standard & Poor's concurrent with their issuance. In the second quarter of 2015, Standard & Poor's reaffirmed Loblaw's credit ratings and outlook. In the first quarter of 2015, 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

In the first quarter of 2015, Dominion Bond Rating Service reaffirmed Choice Properties' credit ratings and trends. Subsequent to the end of the second quarter of 2015, Standard & Poor's reaffirmed Choice Properties' credit ratings and outlook.

6.5 Other Sources of Funding

Independent Securitization Trusts The Company, through PC Bank, participates in various securitization programs that provides a source of funds for the operation of its credit card business. PC Bank maintains and monitors co-ownership interest in credit card receivables with independent securitization trusts, including *Eagle Credit Card Trust® ("Eagle")* and Other Independent Securitization Trusts, in accordance with its financing requirements.

The following table summarizes the amounts securitized to independent securitization trusts:

(millions of Canadian dollars)	**As at June 20, 2015**	As at June 14, 2014	As at January 3, 2015
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust®*	**$ 750**	$ 750	$ 750
Securitized to Other Independent Securitization Trusts	**505**	605	605
Total securitized to independent securitization trusts	**$ 1,255**	$ 1,355	$ 1,355

In the second quarter of 2015, *Eagle* filed a short form base shelf prospectus for the potential issuance of up to $1,000 million of notes over a 25-month period.

In the first quarter of 2015, PC Bank reduced $100 million of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts, and recorded a corresponding decrease to short term debt. Subsequent to the end of the second quarter of 2015, PC Bank increased its co-ownership interest held with the Other Independent Securitization Trusts by $75 million.

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. PC Bank was in compliance with this requirement as at June 20, 2015 and throughout the first half of 2015.

6.6 Share Capital

Second Preferred Share Capital (authorized – unlimited) Second preferred shares issued are fully paid, have no par value and are issuable in series. In the second quarter of 2015, the Company issued 9.0 million 5.30% non-voting Second Preferred Shares, Series B, with a face value of $225 million. These shares entitle the holder to receive fixed cumulative preferential cash dividends of approximately $1.325 per share per annum, as and when declared by the Board of Directors ("Board"), which will accrue from the date of issue and are payable quarterly on the last day of March, June, September and December of each year.

As at June 20, 2015, the Second Preferred Shares, Series B in the amount of $221 million, net of $4 million of after-tax issuance costs, are presented as a component of equity in the condensed consolidated balance sheet.

The Company intends to redeem its $225 million of capital securities on July 31, 2015, representing all of the outstanding Second Preferred Shares, Series A. The redemption will be funded primarily through the proceeds received from the issuance of the Second Preferred Shares, Series B.

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 was as follows:

	June 20, 2015 (12 weeks)		June 14, 2014 (12 weeks)		**June 20, 2015 (24 weeks)**		June 14, 2014 (24 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	**412,604,989**	**$ 7,872**	282,615,781	$ 1,661	**412,480,891**	**$ 7,860**	282,311,573	$ 1,648
Issued for settlement of stock options	**371,684**	**18**	1,404,860	65	**775,882**	**35**	1,709,068	78
Issued for acquisition of Shoppers Drug Mart	**—**	**—**	119,471,382	5,619	**—**	**—**	119,471,382	5,619
Issued to controlling shareholder	**—**	**—**	10,515,247	500	**—**	**—**	10,515,247	500
Purchased and cancelled	**(590,388)**	**(12)**	(1,263,900)	(24)	**(870,488)**	**(17)**	(1,263,900)	(24)
Issued and outstanding, end of period	**412,386,285**	**$ 7,878**	412,743,370	$ 7,821	**412,386,285**	**$ 7,878**	412,743,370	$ 7,821
Shares held in trust, beginning of period	**(633,682)**	**$ (9)**	(831,264)	$ (5)	**(555,046)**	**$ (3)**	(1,067,323)	$ (6)
Purchased for future settlement of Restricted Share Units and Performance Share Units	**(167,450)**	**(4)**	—	—	**(543,853)**	**(11)**	—	—
Release for settlement of Restricted Share Units and Performance Share Units	**11,489**	**1**	10,885	—	**309,256**	**2**	246,944	1
Shares held in trust, end of period	**(789,643)**	**$ (12)**	(820,379)	$ (5)	**(789,643)**	**$ (12)**	(820,379)	$ (5)
Issued and outstanding, net of shares held in trust, end of period	**411,596,642**	**$ 7,866**	411,922,991	$ 7,816	**411,596,642**	**$ 7,866**	411,922,991	$ 7,816
Weighted average outstanding, net of shares held in trust	**411,978,938**		402,951,088		**411,972,280**		342,208,842	

Dividends The following table summarizes the Company's cash dividends declared for the second quarters and year-to-date of 2015 and 2014:

	June 20, 2015[i] (12 weeks)	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Dividends declared per share ($):				
Common share	**$ 0.250**	$ 0.245	**$ 0.495**	$ 0.485
Second Preferred Share, Series A[ii]	**$ 0.37**	$ 0.37	**$ 0.74**	$ 0.74

(i) The 2015 second quarter dividends of $0.250 per share declared on common shares have a payment date of July 1, 2015. The 2015 second quarter dividends of $0.37 per share declared on Second Preferred Shares, Series A have a payment date of July 31, 2015.

(ii) Dividends on Second Preferred Share, Series A are presented in net interest expense and other financing charges on the condensed consolidated statements of earnings.

The Board declared a quarterly dividend of $0.250 per common share, payable on October 1, 2015 to shareholders of record on September 15, 2015 and a dividend on the Second Preferred Shares, Series B of $0.41 per share payable on September 30, 2015 to shareholders of record on September 15, 2015. No dividends were declared on the Second Preferred Shares, Series A. 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 Activity under the Company's Normal Course Issuer Bid ("NCIB") is summarized as follows:

(millions of Canadian dollars except where otherwise indicated)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**590,388**	1,263,900	**870,488**	1,263,900
Cash consideration paid	**$ 38**	$ 59	**$ 55**	$ 59
Premium charged to Retained Earnings	**26**	35	**38**	35
Reduction in Common Share Capital	**12**	24	**17**	24
Common shares repurchased under the NCIB and held in trust (number of shares)	**167,450**	—	**543,853**	—
Cash consideration paid	**$ 11**	$ —	**$ 35**	$ —
Premium charged to Retained Earnings	**7**	—	**24**	—
Reduction in Common Share Capital	**4**	—	**11**	—

In the second quarter of 2015, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 21,931,288 of the Company's common shares, representing approximately 10% of the public float. 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.

6.7 Off-Balance Sheet Arrangements

Letters of Credit Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and other performance guarantees, securitization of PC Bank's credit card receivables and third party financing made available to the Company's independent franchisees. During the second quarter of 2015 and year-to-date, the gross potential liability associated with these letters of credit increased by $110 million (2014 – nil) to a balance of approximately $696 million as at June 20, 2015 (June 14, 2014 – $435 million; January 3, 2015 – $586 million).

7. Financial Instruments

Foreign Exchange Forwards During the first and second quarters of 2015, PC Bank entered into USD foreign exchange forward agreements to hedge its exposure on certain USD payables. These agreements, which mature by June 2016, qualify for hedge accounting as cash flow hedges of future foreign currency transactions. Accordingly, during the second quarter of 2015 and year-to-date, PC Bank recorded a nominal unrealized fair value gain in other comprehensive income related to the effective portion of these agreements.

Bond Forward In the second quarter of 2015, in connection with expected funding needs in the latter half of 2015, PC Bank entered into bond forward agreements of $350 million to hedge its exposure to interest rate changes prior to obtaining financing. These agreements qualify for hedge accounting as cash flow hedges of future interest payments. Accordingly, during the second quarter of 2015 and year-to-date, a nominal unrealized fair value gain on the effective portion of the bond forward agreements was recorded in other comprehensive income.

Securities Investments In the first quarter of 2015, PC Bank purchased and designated certain long term investments as available-for-sale financial assets, which are measured at fair value through other comprehensive income. As at June 20, 2015, the fair value of these investments of $26 million was included in other assets. During the second quarter of 2015 and year-to-date, PC Bank recorded a nominal fair value loss in other comprehensive income related to these investments. These investments are considered part of the liquid securities required to be held by PC Bank to meet its LCR standard, which was established under the OSFI final Guideline on LARs, effective January 1, 2015.

8. Quarterly Results of Operations

Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. Fiscal year 2014 was 53 weeks and fiscal year 2013 was 52 weeks. When a fiscal year such as 2014 contains 53 weeks, the fourth quarter is 13 weeks in duration. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration.

The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period condensed consolidated financial statements for each of the eight most recently completed quarters:

Summary of Consolidated Quarterly Results(3)

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2015	**2014**	2015	2014	2014	2013	2014	2013
(millions of Canadian dollars except where otherwise indicated)	**(12 weeks)**	**(12 weeks)**	(12 weeks)	(12 weeks)	(13 weeks)	(12 weeks)	(16 weeks)	(16 weeks)
Revenue	**$ 10,535**	**$ 10,307**	$ 10,048	$ 7,292	$ 11,413	$ 7,640	$ 13,599	$ 10,009
Net earnings (loss) attributable to shareholders of the Company	**$ 185**	**$ (456)**	$ 146	$ 120	$ 247	$ 114	$ 142	$ 150
Net earnings (loss) per common share:								
Basic ($)	**$ 0.45**	**$ (1.13)**	$ 0.35	$ 0.43	$ 0.60	$ 0.41	$ 0.34	$ 0.53
Diluted ($)	**$ 0.44**	**$ (1.13)**	$ 0.35	$ 0.42	$ 0.59	$ 0.40	$ 0.34	$ 0.53
Average national food price inflation (as measured by CPI)	**3.9%**	**2.5%**	4.6%	1.2%	3.5%	0.9%	2.8%	0.9%
Food retail same-store sales growth	**2.1%**	**1.8%**	2.0%	0.9%	2.4%	0.6%	2.6%	0.4%
Drug retail same-store sales growth	**3.8%**	**2.5%**	3.1%	1.4%	3.8%	1.2%	2.5%	2.2%

CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

Over the past eight quarters, net retail square footage increased by 18.4 million square feet, including 18.0 million square feet contributed by Shoppers Drug Mart at acquisition, to 70.0 million square feet.

Fluctuations in quarterly net earnings (loss) attributable to shareholders of the Company 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, the timing of holidays and were impacted by the items set out in Section 13 "Non-GAAP Financial Measures" of the MD&A as well as the following significant items:

- The acquisition of Shoppers Drug Mart, including the associated acquisition-related accounting adjustments and net synergies;
- Restructured fee arrangements with franchisees of certain franchise banners;
- Transition of certain stores to more cost effective and efficient operating terms under collective agreements;
- Choice Properties start-up costs and initial public offering transaction costs; and
- Equity-based compensation.

As of the second quarter of 2014, net earnings (loss) per common share were impacted by the dilutive effect of the 119.5 million common shares issued as partial consideration for the acquisition of Shoppers Drug Mart, as well as 10.5 million common shares issued to Weston in relation to the acquisition.

9. 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 second quarter of 2015 that materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting, except as noted below:

In accordance with the provisions of National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, Shoppers Drug Mart was excluded from the Company's conclusions over disclosure controls and procedures and internal control over financial reporting for the 365 day allowable grace period subsequent to the acquisition to allow for the assessment of the design effectiveness of Shoppers Drug Mart's disclosure controls and procedures and internal controls over financial reporting. The Company has completed its assessment of Shoppers Drug Mart's control environment and incorporated it in the Company's assessment of the design effectiveness of disclosure controls and procedures and internal controls over financial reporting.

10. Enterprise Risks and Risk Management

Detailed descriptions of the operating and financial risks and risk management strategies are included in Section 15 "Enterprise Risks and Risk Management" of the MD&A in the Company's 2014 Annual Report and is available online on www.sedar.com. Those risks and risk management strategies remain unchanged except as noted below.

Regulatory and Tax Changes to any of the laws, rules, regulations or policies (collectively, "laws") applicable to the Company's business, including laws affecting all types of taxes, and laws affecting the production, processing, preparation, distribution, packaging and labelling of products, could have an adverse impact on the financial or operational performance of the Company. In the course of complying with such changes, the Company could incur significant costs. Changing laws or interpretations of such laws or enhanced enforcement of existing laws could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and ability to efficiently conduct business. Failure by the Company to comply with applicable laws and orders could subject the Company to civil or regulatory actions, investigations or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could adversely affect the reputation, operations or financial performance of the Company.

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 intended to proceed with reassessments of the tax treatment of the Company's wholly owned 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.

During the second quarter of 2015, the Company received reassessments from the CRA and the Ontario Ministry of Finance for the 2000 to 2010 taxation years totaling $341 million including interest and penalties. The Company believes it is likely that the CRA will issue reassessments for the 2011 to 2013 taxation years on the same or similar basis. The Company strongly disagrees with the CRA's position and has filed a Notice of Appeal. No amount for any reassessments has been provided for in the Company's unaudited interim period condensed consolidated financial statements.

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 in the year(s) of resolution.

As part of the review undertaken by the Competition Bureau of the Company's acquisition of Shoppers Drug Mart, it expressed concerns about practices that the Company has in place with certain suppliers. In connection with this review, the Bureau issued requests for documents from the Company and 12 suppliers of the Company. The Company has and will continue to cooperate with the Competition Bureau in its review of these practices. At this stage of the review, it is not possible to predict when the review will be completed or the outcome of such review. If the Competition Bureau is not satisfied that the Company's practices satisfy the Bureau's objectives of maintaining competitive markets, then the Bureau may pursue remedies that could have a negative material impact on the Company's reputation, results of operations and financial position.

Legal Proceedings In the second quarter of 2015, a class action was commenced in the Ontario Superior Court of Justice against the Company and certain subsidiaries, Weston, and others in Canada in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The class action, which has not yet been formally served on the Company, seeks approximately $2 billion in damages. Plaintiffs in class actions and other lawsuits against the Company may seek very large or indeterminate amounts as alleged damages, including punitive damages, and the amount of any probable and estimated liability, if any, may remain unknown for substantial periods of time. Since litigation is inherently uncertain, the outcome of this class action, and all other litigation proceedings and claims remains uncertain. The Company believes the class action is without merit and intends to vigorously defend itself against any claims arising out of any such action. In the event that management's assessment of this class action is incorrect, there may be a material adverse effect on the Company's reputation, results of operations and financial position.

11. Accounting Standards

11.1 Changes to Significant Accounting Policies

Intangible Assets The classification of software costs requires judgment to determine whether such costs should be classified as fixed assets or intangible assets. Management has reviewed the classification of the Company's software costs, primarily related to the implementation of its new IT systems, and has determined that it would be appropriate to present certain costs as intangible assets. The Company implemented the change retrospectively in the first quarter of 2015, with the following impact:

Condensed Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at June 14, 2014	As at January 3, 2015	As at December 29, 2013
Fixed Assets	$ (517)	$ (498)	$ (590)
Intangible Assets	517	498	590

In addition, the Company reassessed and revised the useful life of its new IT systems from five to seven years. This revision represents a change in estimate resulting in a current year reduction of depreciation and amortization expense, related to these assets, of approximately $34 million compared to 2014.

12. Outlook

Loblaw's strategic framework is focused on delivering the best in food, best in health and beauty, operational excellence and growth. This strategic framework is supported by a financial strategy of maintaining a stable trading environment that targets positive same-store sales and stable gross margin; surfacing efficiencies; delivering synergies as a result of its acquisition of Shoppers Drug Mart; and deleveraging the balance sheet. Consistent with its previous outlook, on a full year comparative basis reflecting 2014 financial results for Loblaw and Shoppers Drug Mart, in 2015 the Company expects to:

- Maintain positive same-store sales and stable gross margin (excluding synergies) in the Retail segment;
- Achieve net synergies as a result of the acquisition of Shoppers Drug Mart slightly exceeding $200 million;
- Continue to drive net efficiencies across the food retail business by achieving reductions in supply chain, administrative functions and IT, while still investing in key areas, like eCommerce;
- Grow adjusted operating income(2) in its food retail business, excluding synergies, and experience a decline in adjusted operating income(2) in its drug retail business, excluding synergies, as a result of investments in key projects and other factors;
- Grow consolidated adjusted net earnings available to common shareholders(2) (including synergies) relative to 2014, however not at the same level achieved in the first half of 2015;
- Invest approximately $1,200 million in capital expenditures; and
- Achieve its deleveraging target in 2015.

The Company's expectations for 2015 also include the following:

- Competitive intensity expected to remain high, but relatively stable as industry square footage growth in supermarket-type merchandise moderates; and
- Continued pressure in our drug retail business from the ongoing impact of healthcare reform.

13. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: Retail segment adjusted gross profit, Retail segment adjusted gross profit percentage, EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted operating income, adjusted operating margin, adjusted net interest expense and other financing charges, adjusted income taxes, adjusted income tax rate, adjusted net earnings, adjusted basic net earnings per common share, free cash flow, adjusted debt, adjusted debt to rolling year adjusted EBITDA, rolling year adjusted return on equity and rolling year adjusted return on capital and with respect to Choice Properties: adjusted funds from operations. 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 non-GAAP financial measures to calculate the following financial ratios: "adjusted debt to rolling year adjusted EBITDA", which is defined as adjusted debt divided by cumulative adjusted EBITDA for the latest four quarters; "Rolling year adjusted return on equity", which is defined as cumulative adjusted net earnings available to common shareholders of the Company for the latest four quarters divided by average total equity attributable to common shareholders of the Company; and "Rolling year adjusted return on capital", which is defined as cumulative tax effected adjusted operating income for the latest four quarters divided by average capital. Capital for the purposes of this calculation is defined as adjusted debt, plus total equity attributable to shareholders of the Company, less cash and cash equivalents, short term investments and amounts held in escrow.

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.

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

(millions of Canadian dollars)	**2015 (12 weeks)**	2014 (12 weeks)	**2015 (24 weeks)**	2014 (24 weeks)
Retail segment gross profit	**$ 2,711**	$ 1,840	**$ 5,335**	$ 3,443
Add impact of the following:				
Charge related to apparel inventory	**8**	—	**8**	—
Recognition of fair value increment on inventory sold	**—**	622	**—**	622
Charge related to inventory measurement and other conversion differences	**—**	190	**—**	190
Retail segment adjusted gross profit	**$ 2,719**	$ 2,652	**$ 5,343**	$ 4,255

Charge related to apparel inventory During the second quarter of 2015, the Company entered into an agreement to liquidate, in the U.S., certain older Canadian apparel inventory and recorded a charge in the second quarter of 2015 and year-to-date of $8 million (2014 – nil).

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

Charge related to inventory measurement and other conversion differences for the Company's corporate grocery stores As of the end of 2014, the Company had completed the conversion of substantially all of its corporate grocery locations and associated distribution centres to the new IT systems. 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. In the second quarter of 2014 and year-to-date, a $190 million decrease in the value of the inventory was recognized in gross profit and operating income. The Company is undertaking the conversion of its remaining grocery locations during 2015 and additional impacts may result. In 2015, no additional cost has been recognized in gross profit and operating income.

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 (loss), which is reconciled to GAAP net earnings measures reported in the condensed consolidated statements of earnings for the periods ended June 20, 2015 and June 14, 2014. 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 investments 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.

					2015 (12 weeks)					2014[3] (12 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services[4]**	**Choice Properties[4]**	**Consolidation and Eliminations**	**Consolidated**	Retail	Financial Services[4]	Choice Properties[4]	Consolidation and Eliminations	Consolidated
Net earnings (loss) attributable to shareholders of the Company					**$ 185**					$ (456)
Add (deduct) impact of the following:										
Non-Controlling Interests					**1**					—
Net interest expense and other financing charges					**106**					150
Income taxes					**121**					(150)
Operating income (loss)	**$ 375**	**$ 36**	**$ 115**	**$ (113)**	**$ 413**	$ (496)	$ 38	$ 122	$ (120)	$ (456)
Depreciation and amortization	**364**	**2**	**—**	**3**	**369**	379	2	—	3	384
EBITDA	**$ 739**	**$ 38**	**$ 115**	**$ (110)**	**$ 782**	$ (117)	$ 40	$ 122	$ (117)	$ (72)
Operating income (loss)	**$ 375**	**$ 36**	**$ 115**	**$ (113)**	**$ 413**	$ (496)	$ 38	$ 122	$ (120)	$ (456)
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**124**	**—**	**—**	**—**	**124**	125	—	—	—	125
Restructuring and other related costs	**54**	**—**	**—**	**—**	**54**	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**9**	**—**	**—**	**—**	**9**	—	—	—	—	—
Charge related to apparel inventory	**8**	**—**	**—**	**—**	**8**	—	—	—	—	—
Net fixed asset and other related impairments	**4**	**—**	**—**	**—**	**4**	2	—	—	—	2
Recognition of fair value increment on inventory sold	**—**	**—**	**—**	**—**	**—**	622	—	—	—	622
Charge related to inventory measurement and other conversion differences	**—**	**—**	**—**	**—**	**—**	190	—	—	—	190
Shoppers Drug Mart acquisition-related costs and divestitures loss	**—**	**—**	**—**	**—**	**—**	52	—	—	—	52
Adjusted operating income	**$ 574**	**$ 36**	**$ 115**	**$ (113)**	**$ 612**	$ 495	$ 38	$ 122	$ (120)	$ 535
Depreciation and amortization	**364**	**2**	**—**	**3**	**369**	379	2	—	3	384
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(124)**	**—**	**—**	**—**	**(124)**	(125)	—	—	—	(125)
Adjusted EBITDA	**$ 814**	**$ 38**	**$ 115**	**$ (110)**	**$ 857**	$ 749	$ 40	$ 122	$ (117)	$ 794

	2015 (24 weeks)					2014[3] (24 weeks)				
(millions of Canadian dollars)	Retail	Financial Services[4]	Choice Properties[4]	Consolidation and Eliminations	Consolidated	Retail	Financial Services[4]	Choice Properties[4]	Consolidation and Eliminations	Consolidated
Net earnings (loss) attributable to shareholders of the Company					$ 331					$ (336)
Add (deduct) impact of the following:										
Non-Controlling Interests					1					—
Net interest expense and other financing charges					298					265
Income taxes					197					(109)
Operating income (loss)	$ 745	$ 78	$ 242	$ (238)	$ 827	$ (256)	$ 74	$ 240	$ (238)	$ (180)
Depreciation and amortization	728	5	—	6	739	569	4	—	6	579
EBITDA	$1,473	$ 83	$ 242	$ (232)	$ 1,566	$ 313	$ 78	$ 240	$ (232)	$ 399
Operating income (loss)	$ 745	$ 78	$ 242	$ (238)	$ 827	$ (256)	$ 74	$ 240	$ (238)	$ (180)
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	248	—	—	—	248	125	—	—	—	125
Restructuring and other related costs	66	—	—	—	66	—	—	—	—	—
Charge related to apparel inventory	8	—	—	—	8	—	—	—	—	—
Net fixed asset and other related impairments	7	—	—	—	7	4	—	1	—	5
Fair value adjustment on fuel and foreign currency contracts	(3)	—	—	—	(3)	—	—	—	—	—
Shoppers Drug Mart acquisition-related costs and divestitures loss	2	—	—	—	2	60	—	—	—	60
Recognition of fair value increment on inventory sold	—	—	—	—	—	622	—	—	—	622
Charge related to inventory measurement and other conversion differences	—	—	—	—	—	190	—	—	—	190
Adjusted operating income	$1,073	$ 78	$ 242	$ (238)	$ 1,155	$ 745	$ 74	$ 241	$ (238)	$ 822
Depreciation and amortization	728	5	—	6	739	569	4	—	6	579
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(248)	—	—	—	(248)	(125)	—	—	—	(125)
Adjusted EBITDA	$1,553	$ 83	$ 242	$ (232)	$ 1,646	$1,189	$ 78	$ 241	$ (232)	$ 1,276

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in the second quarter of 2014 included approximately $6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. During the second quarter of 2015, $124 million (2014 – $125 million) and year-to-date of $248 million (2014 – $125 million) of amortization was recognized in operating income. Annual amortization associated with the acquired intangibles will be approximately $550 million over the next nine years, and will decrease thereafter.

Restructuring and other related costs In the second quarter of 2015, the Company recorded restructuring and other related charges of $54 million (2014 – nil). Of this amount, $45 million related to a restructuring plan to close 52 unprofitable retail locations across a range of banners and formats, which included $30 million for severance and lease termination costs and $15 million for asset impairments associated with these retail locations. The additional $9 million of restructuring charges related to store support restructuring activities. The year-to-date charge of $66 million (2014 – nil) also included store support restructuring activities in the Joe Fresh and Shoppers Home Health Care businesses that were incurred in the first quarter of 2015.

Net fixed asset and other related impairments At each balance sheet date, the Company assesses and, when required, records impairments and recoveries of previous impairments related to the carrying value of its fixed assets, investment properties and intangible assets. In the second quarter of 2015, the Company recorded a $4 million (2014 – $2 million) and year-to-date $7 million (2014 – $5 million) related to net fixed asset and other related impairments.

Fair value adjustment on fuel and foreign currency contracts The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations. In accordance with the Company's commodity risk management policy, the Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to fuel prices and the U.S. dollar exchange rate. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, changes in the fair value of these instruments, which include realized and unrealized gains and losses, are recorded in operating income. In the second quarter of 2015, the Company recorded a net fair value loss on fuel and foreign currency contracts of $9 million (2014 – nil) and a year-to-date gain of $3 million (2014 – nil). Despite the impact of accounting for these commodity and foreign currency derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price and exchange rate fluctuations in the underlying commodities and U.S. dollar commitments.

Shoppers Drug Mart acquisition-related costs and divestitures loss In the first quarter of 2015, the Company completed all divestitures required by the Competition Bureau resulting in a divestitures loss of $2 million. No additional divestitures loss was recorded in the second quarter of 2015 (2014 – nil). In connection with the agreement to acquire all of the outstanding common shares of Shoppers Drug Mart, in the second quarter of 2014, the Company incurred $52 million of acquisition-related costs and $60 million year-to-date.

Adjusted Net Interest Expense and Other Financing Charges The following table reconciles adjusted net interest expense and other financing charges to net interest expense and other financing charges in the condensed consolidated statements of earnings for the periods ended June 20, 2015 and June 14, 2014. The Company believes that adjusted net interest expense and other financing charges is useful in assessing the Company's underlying financial performance and in making decisions regarding the financial operations of the business.

(millions of Canadian dollars)	**2015 (12 weeks)**	2014 (12 weeks)	**2015 (24 weeks)**	2014 (24 weeks)
Net interest expense and other financing charges	**$ 106**	$ 150	**$ 298**	$ 265
Add (deduct) impact of the following:				
Fair value adjustment on Trust Unit Liability	**33**	(8)	**(25)**	(20)
Accelerated amortization of deferred financing costs	**(8)**	(14)	**(11)**	(14)
Shoppers Drug Mart acquisition-related costs and divestitures loss	**—**	—	**—**	(15)
Adjusted net interest expense and other financing charges	**$ 131**	$ 128	**$ 262**	$ 216

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 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 each period. In the second quarter of 2015, the Company recorded a gain of $33 million (2014 – loss of $8 million) and year-to-date a loss of $25 million (2014 – loss of $20 million) related to the fair value adjustment on the Trust Unit Liability.

Accelerated amortization of deferred financing costs In the second quarter of 2015, the Company recorded a charge of $8 million (2014 – $14 million) and year-to-date $11 million (2014 – $14 million) related to the accelerated amortization of deferred financing costs due to the repayment of $662 million (2014 – $1,600 million) and year-to-date of $869 million (2014 – $1,600 million) of the Acquisition Term Loan.

Shoppers Drug Mart acquisition-related costs and divestitures loss In addition to the acquisition-related costs and divestitures loss recorded in operating income noted above, during the first quarter of 2014, $15 million of additional net interest expense was incurred in connection with the financing related to the acquisition of Shoppers Drug Mart. As of the acquisition date, these costs are no longer excluded from adjusted net interest expense and other financing charges as they are part of ongoing operations.

Adjusted Income Taxes and Adjusted Income Tax Rate The Company believes adjusted income taxes is useful in assessing the underlying operating performance and in making decisions regarding the ongoing operations of its business.

(millions of Canadian dollars)		**2015 (12 weeks)**		2014[(3)] (12 weeks)		**2015 (24 weeks)**		2014[(3)] (24 weeks)
Adjusted operating income[(i)]	**$**	**612**	$	535	**$**	**1,155**	$	822
Adjusted net interest expense and other financing charges[(i)]		**131**		128		**262**		216
Adjusted earnings before taxes	**$**	**481**	$	407	**$**	**893**	$	606
Income taxes	**$**	**121**	$	(150)	**$**	**197**	$	(109)
Add (deduct) impact of the following:								
Tax impact of items included in adjusted earnings before taxes[(ii)]		**47**		260		**82**		265
Provincial statutory corporate income tax rate change		**(38)**		—		**(38)**		—
Adjusted income taxes	**$**	**130**	$	110	**$**	**241**	$	156
Effective tax rate		**39.4%**		24.8%		**37.2%**		24.5%
Adjusted income tax rate		**27.0%**		27.0%		**27.0%**		25.7%

(i) See reconciliations of adjusted operating income and adjusted net interest expense and other financing charges above.

(ii) See the EBITDA, adjusted EBITDA and adjusted operating income table and the adjusted net interest expense and other financing charges table above for a complete list of items included in adjusted earnings before taxes.

Adjusted income tax rate is calculated as adjusted income taxes divided by the sum of adjusted operating income less adjusted net interest expense and other financing charges.

Provincial statutory corporate income tax rate change In the second quarter of 2015, the government of Alberta announced an increase in the provincial corporate income tax rate from 10% to 12%. The increase is effective July 1, 2015, but was enacted on June 19, 2015. As a result, the Company recorded a charge of $38 million in the second quarter of 2015 and year-to-date related to the re-measurement of its deferred tax liabilities.

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 periods ended June 20, 2015 and June 14, 2014:

	2015 (12 weeks)		2014[3] (12 weeks)		**2015 (24 weeks)**		2014[3] (24 weeks)	
(millions of Canadian dollars/Canadian dollars)	**Net Earnings Available to Common Shareholders of the Company**	**Basic Net Earnings Per Common Share**	Net Earnings (Loss) Available to Common Shareholders of the Company	Basic Net Earnings (Loss) Per Common Share	**Net Earnings Available to Common Shareholders of the Company**	**Basic Net Earnings Per Common Share**	Net Earnings (Loss) Available to Common Shareholders of the Company	Basic Net Earnings (Loss) Per Common Share
	$ 185	**$ 0.45**	$ (456)	$ (1.13)	**$ 331**	**$ 0.80**	$ (336)	$ (0.98)
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**91**	**0.23**	92	0.23	**182**	**0.45**	92	0.27
Restructuring and other related costs	**47**	**0.11**	—	—	**56**	**0.14**	—	—
Provincial statutory corporate income tax rate change	**38**	**0.09**	—	—	**38**	**0.09**	—	—
Fair value adjustment on Trust Unit Liability[i]	**(33)**	**(0.08)**	8	0.02	**25**	**0.06**	20	0.06
Accelerated amortization of deferred financing costs	**6**	**0.01**	10	0.02	**8**	**0.02**	10	0.03
Charge related to apparel inventory	**6**	**0.01**	—	—	**6**	**0.01**	—	—
Net fixed asset and other related impairments	**3**	**0.01**	2	—	**5**	**0.01**	4	0.01
Fair value adjustment on fuel and foreign currency contracts	**7**	**0.02**	—	—	**(2)**	**—**	—	—
Shoppers Drug Mart acquisition-related costs and divestitures loss	**—**	**—**	45	0.11	**2**	**—**	64	0.19
Recognition of fair value increment on inventory sold	**—**	**—**	457	1.14	**—**	**—**	457	1.33
Charge related to inventory measurement and other conversion differences	**—**	**—**	139	0.35	**—**	**—**	139	0.41
Adjusted	**$ 350**	**$ 0.85**	$ 297	$ 0.74	**$ 651**	**$ 1.58**	$ 450	$ 1.32

(i) Gains or losses related to the fair value adjustment on Trust Unit Liability are not subject to tax.

Free Cash Flow The following table reconciles free cash flow used in assessing the Company's financial condition to GAAP measures for the periods ended June 20, 2015 and June 14, 2014. 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)	**2015 (12 weeks)**	2014 (12 weeks)	**2015 (24 weeks)**	2014 (24 weeks)
Cash flows from operating activities	**$ 930**	$ 959	**$ 1,447**	$ 913
Less:				
Capital investments	**221**	239	**452**	356
Interest paid	**120**	98	**262**	217
Free cash flow	**$ 589**	$ 622	**$ 733**	$ 340

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 indicated. The Company believes that adjusted debt is relevant in assessing the amount of financial leverage employed. 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)	**As at June 20, 2015**	As at June 14, 2014	As at January 3, 2015	As at March 28, 2014
Bank indebtedness	**$ 275**	$ 335	$ 162	$ 295
Short term debt	**505**	605	605	605
Long term debt due within one year	**1,009**	74	420	902
Long term debt	**10,053**	11,797	11,042	11,262
Trust Unit Liability	**756**	715	722	703
Capital securities	**225**	224	225	224
Certain other liabilities	**28**	34	28	39
Total debt	**$ 12,851**	$ 13,784	$ 13,204	$ 14,030
Less:				
Independent Securitization Trusts	**$ 1,255**	$ 1,355	$ 1,355	$ 1,355
Independent Funding Trusts	**504**	476	498	469
Trust Unit Liability	**756**	715	722	703
Guaranteed Investment Certificates	**621**	528	634	443
Adjusted debt	**$ 9,715**	$ 10,710	$ 9,995	$ 11,060

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

Choice Properties' Adjusted Funds from Operations[4] The following table reconciles Choice Properties' adjusted funds from operations to GAAP measures for the periods ended June 20, 2015 and June 14, 2014. The Company believes adjusted funds from operations is useful in measuring economic performance and is indicative of Choice Properties' ability to pay distributions.

(millions of Canadian dollars)	**2015 (12 weeks)**	2014 (12 weeks)	**2015 (24 weeks)**	2014 (24 weeks)
Net income (loss)	**$ 189**	$ (2)	**$ (22)**	$ (10)
Fair value adjustment on Class B Limited Partnership units	**(160)**	(11)	**94**	37
Fair value adjustment on investment properties	**16**	—	**17**	—
Distributions on Class B Limited Partnership units	**50**	47	**100**	93
Amortization of tenant improvement allowances	**—**	—	**—**	1
Internal expenses for leasing	**1**	—	**1**	—
Funds from Operations	**$ 96**	$ 34	**$ 190**	$ 121
Straight-line rental revenue	**$ (9)**	$ (8)	**(18)**	(17)
Amortization of finance charges	**(1)**	52	**(1)**	51
Unit-based compensation expense	**1**	1	**1**	1
Sustaining property and leasing capital expenditures, normalized[(i)]	**(10)**	(10)	**(20)**	(18)
Adjusted Funds from Operations	**$ 77**	$ 69	**$ 152**	$ 138

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

14. 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 OSFI as the primary regulator for the Company's subsidiary, PC Bank.

July 22, 2015
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 119 of the Company's 2014 Annual Report.

(2) See Section 13 "Non-GAAP Financial Measures".

(3) Certain 2014 figures have been restated to conform with the current year's presentation. See Section 11.1 "Changes to Significant Accounting Policies" and Section 13 "Non-GAAP Financial Measures".

(4) For segment presentation purposes, the results are for the periods ended June 30, 2015 and June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 20, 2015 and June 14, 2014 are included in Consolidation and Eliminations. See Section 13 "Non-GAAP Financial Measures" and Note 21 "Segment Information" in the Company's second quarter 2015 unaudited interim period condensed consolidated financial statements.

Financial Results

Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Revenue	**$ 10,535**	$ 10,307	**$ 20,583**	$ 17,599
Cost of Merchandise Inventories Sold	**7,620**	8,271	**14,841**	13,776
Selling, General and Administrative Expenses	**2,502**	2,492	**4,915**	4,003
Operating Income (Loss)	**$ 413**	$ (456)	**$ 827**	$ (180)
Net interest expense and other financing charges (note 5)	**106**	150	**298**	265
Earnings (Loss) Before Income Taxes	**$ 307**	$ (606)	**$ 529**	$ (445)
Income taxes (note 6)	**121**	(150)	**197**	(109)
Net Earnings (Loss)	**$ 186**	$ (456)	**$ 332**	$ (336)
Attributable to:				
Shareholders of the Company	**$ 185**	$ (456)	**$ 331**	$ (336)
Non-Controlling Interests (note 3)	**1**	—	**1**	—
Net Earnings (Loss)	**$ 186**	$ (456)	**$ 332**	$ (336)
Net Earnings (Loss) per Common Share ($) (note 7)				
Basic	**$ 0.45**	$ (1.13)	**$ 0.80**	$ (0.98)
Diluted	**$ 0.44**	$ (1.13)	**$ 0.79**	$ (0.98)
Weighted Average Common Shares Outstanding (note 7) (millions)				
Basic	**412.0**	403.0	**412.0**	342.2
Diluted	**416.7**	403.0	**416.7**	342.2

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

Condensed Consolidated Statements of Comprehensive Income

(millions of Canadian dollars) (unaudited)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Net Earnings (Loss)	**$ 186**	$ (456)	**$ 332**	$ (336)
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment (loss) gain	**$ (4)**	$ (3)	**$ 3**	$ 1
Unrealized gain on cash flow hedges (note 18)	**1**	—	**1**	—
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 17)	**10**	23	**(5)**	(46)
Other comprehensive income (loss)	**$ 7**	$ 20	**$ (1)**	$ (45)
Total Comprehensive Income (Loss)	**$ 193**	$ (436)	**$ 331**	$ (381)
Attributable to:				
Shareholders of the Company	**$ 192**	$ (436)	$ 330	$ (381)
Non-Controlling Interests	**1**	—	1	—
Total Comprehensive Income (Loss)	**$ 193**	$ (436)	**$ 331**	$ (381)

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

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Preferred Share Capital	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance at January 3, 2015	**$ —**	**$ 7,857**	**$ 4,810**	**$ 104**	**$ 8**	**$ 8**	**$ 12,787**
Net earnings	**$ —**	**$ —**	**$ 331**	**$ —**	**$ —**	**$ 1**	**$ 332**
Other comprehensive (loss) income	**—**	**—**	**(5)**	**—**	**4**	**—**	**(1)**
Total Comprehensive Income	**$ —**	**$ —**	**$ 326**	**$ —**	**$ 4**	**$ 1**	**$ 331**
Preferred share issuance (note 15)	**221**	**—**	**—**	**—**	**—**	**—**	**221**
Common shares purchased and cancelled (note 15)	**—**	**(17)**	**(38)**	**—**	**—**	**—**	**(55)**
Net effect of equity-based compensation (note 15 and 16)	**—**	**35**	**—**	**10**	**—**	**—**	**45**
Shares purchased and held in trust (note 15)	**—**	**(11)**	**(24)**	**—**	**—**	**—**	**(35)**
Shares released from trust (note 15 and 16)	**—**	**2**	**11**	**—**	**—**	**—**	**13**
Dividends declared per common share – $0.495 (note 15)	**—**	**—**	**(204)**	**—**	**—**	**—**	**(204)**
	$ 221	**$ 9**	**$ 71**	**$ 10**	**$ 4**	**$ 1**	**$ 316**
Balance at June 20, 2015	**$ 221**	**$ 7,866**	**$ 4,881**	**$ 114**	**$ 12**	**$ 9**	**$ 13,103**

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Preferred Share Capital	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance at December 28, 2013	$ —	$ 1,642	$ 5,271	$ 87	$ —	$ —	$ 7,000
Net loss	$ —	$ —	$ (336)	$ —	$ —	$ —	$ (336)
Other comprehensive (loss) income	—	—	(46)	—	1	—	(45)
Total Comprehensive (Loss) Income	$ —	$ —	$ (382)	$ —	$ 1	$ —	$ (381)
Acquisition of Shoppers Drug Mart Corporation (note 4 and 15)	—	6,119	—	—	—	—	6,119
Common shares purchased and cancelled (note 15)	—	(24)	(35)			—	(59)
Net effect of equity-based compensation (note 15 and 16)	—	78	—	5	—	—	83
Shares released from trust (note 15 and 16)	—	1	9	—	—	—	10
Dividends declared per common share – $0.485 (note 15)	—	—	(169)	—	—	—	(169)
	$ —	$ 6,174	$ (577)	$ 5	$ 1	$ —	$ 5,603
Balance at June 14, 2014	$ —	$ 7,816	$ 4,694	$ 92	$ 1	$ —	$ 12,603

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

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)		As at June 20, 2015		As at June 14, 2014[(i)]		As at January 3, 2015[(i)]
Assets						
Current Assets						
Cash and cash equivalents (note 8)	**$**	**1,285**	$	1,179	$	999
Short term investments (note 8)		**52**		47		21
Accounts receivable		**1,191**		1,021		1,209
Credit card receivables (note 9)		**2,647**		2,561		2,630
Inventories (note 10)		**4,349**		4,297		4,309
Income tax recoverable		**31**		24		—
Prepaid expenses and other assets		**245**		226		214
Assets held for sale		**24**		44		23
Total Current Assets	**$**	**9,824**	$	9,399	$	9,405
Fixed Assets		**10,275**		10,257		10,296
Investment Properties		**177**		148		185
Intangible Assets		**9,403**		9,953		9,675
Goodwill		**3,327**		3,310		3,318
Deferred Income Tax Assets		**150**		298		193
Security Deposits (note 8)		**7**		97		7
Franchise Loans Receivable		**384**		380		399
Other Assets (note 11)		**317**		249		281
Total Assets	**$**	**33,864**	$	34,091	$	33,759
Liabilities						
Current Liabilities						
Bank indebtedness	**$**	**275**	$	335	$	162
Trade payables and other liabilities		**4,924**		4,678		4,774
Provisions		**72**		55		84
Income taxes payable		**—**		—		34
Short term debt (note 12)		**505**		605		605
Long term debt due within one year (note 13)		**1,009**		74		420
Associate interest		**184**		170		193
Capital securities		**225**		—		225
Total Current Liabilities	**$**	**7,194**	$	5,917	$	6,497
Provisions		**85**		65		76
Long Term Debt (note 13)		**10,053**		11,797		11,042
Trust Unit Liability (note 18)		**756**		715		722
Deferred Income Tax Liabilities		**1,863**		2,007		1,853
Capital Securities		**—**		224		—
Other Liabilities (note 14)		**810**		763		782
Total Liabilities	**$**	**20,761**	$	21,488	$	20,972
Equity						
Preferred Share Capital (note 15)	**$**	**221**	$	—	$	—
Common Share Capital (note 15)		**7,866**		7,816		7,857
Retained Earnings		**4,881**		4,694		4,810
Contributed Surplus (note 16)		**114**		92		104
Accumulated Other Comprehensive Income		**12**		1		8
Total Equity Attributable to Shareholders of the Company	**$**	**13,094**	$	12,603	$	12,779
Non-Controlling Interests		**9**		—		8
Total Equity	**$**	**13,103**	$	12,603	$	12,787
Total Liabilities and Equity	**$**	**33,864**	$	34,091	$	33,759

(i) Certain comparative figures have been restated. See note 2 and note 4.

Contingent Liabilities (note 19).

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

Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars) (unaudited)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Operating Activities				
Net earnings (loss)	**$ 186**	$ (456)	**$ 332**	$ (336)
Income taxes (note 6)	**121**	(150)	**197**	(109)
Net interest expense and other financing charges (note 5)	**106**	150	**298**	265
Depreciation and amortization	**369**	384	**739**	579
Income taxes paid	**(71)**	(88)	**(206)**	(169)
Interest received	**1**	13	**3**	21
Change in credit card receivables (note 9)	**(169)**	(162)	**(17)**	(23)
Change in non-cash working capital	**321**	395	**19**	(196)
Net fixed asset and other related impairments	**20**	2	**23**	5
(Gain) loss on disposal of assets	**(1)**	4	**(2)**	4
Recognition of fair value increment on inventory sold (note 10)	**—**	622	**—**	622
Charge related to inventory measurement and other conversion differences (note 10)	**—**	190	**—**	190
Other	**47**	55	**61**	60
Cash Flows from Operating Activities	**$ 930**	$ 959	**$ 1,447**	$ 913
Investing Activities				
Fixed asset purchases	**$ (178)**	$ (201)	**$ (382)**	$ (305)
Intangible asset additions	**(43)**	(38)	**(70)**	(51)
Acquisition of Shoppers Drug Mart Corporation, net of cash acquired	**—**	(6,619)	**—**	(6,619)
Change in short term investments (note 8)	**(8)**	(8)	**(31)**	243
Proceeds from disposal of assets	**15**	2	**26**	12
Change in franchise investments and other receivables	**(22)**	(19)	**(9)**	(13)
Change in security deposits (note 8)	**(1)**	1,600	**—**	1,604
Investment in joint venture	**(1)**	—	**(2)**	—
Other	**(3)**	(3)	**(44)**	(3)
Cash Flows used in Investing Activities	**$ (241)**	$ (5,286)	**$ (512)**	$ (5,132)
Financing Activities				
Change in bank indebtedness	**$ (24)**	$ 40	**$ 113**	$ 40
Change in Associate interest	**(3)**	(4)	**(9)**	(4)
Change in short term debt (note 12)	**—**	—	**(100)**	—
Long Term Debt (note 13)				
Issued	**259**	5,165	**514**	5,634
Retired	**(612)**	(2,474)	**(968)**	(2,600)
Deferred debt financing costs	**—**	(29)	**—**	(29)
Interest paid	**(120)**	(98)	**(262)**	(217)
Dividends paid	**(101)**	(125)	**(101)**	(193)
Common Share Capital (note 15 and 16)				
Issued	**14**	554	**28**	564
Purchased and held in trust	**(11)**	—	**(35)**	—
Purchased and cancelled	**(38)**	(59)	**(55)**	(59)
Preferred Share Capital (note 15)				
Issued	**221**	—	**221**	—
Cash Flows (used in) from Financing Activities	**$ (415)**	$ 2,970	**$ (654)**	$ 3,136
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$ (2)**	$ (1)	**$ 5**	$ 2
Change in cash and cash equivalents	**$ 272**	$ (1,358)	**$ 286**	$ (1,081)
Cash and cash equivalents, beginning of period	**1,013**	2,537	**999**	2,260
Cash and Cash Equivalents, End of Period	**$ 1,285**	$ 1,179	**$ 1,285**	$ 1,179

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's ultimate parent is Wittington Investments, Limited. The remaining common shares are widely held.

In 2014, the Company acquired all of the outstanding shares of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") (see note 4).

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

The Company's business is affected by seasonality and the timing of holidays, relative to the Company's interim periods. Accordingly, quarterly performance is not necessarily indicative of annual performance. Historically, the Company has earned more revenue in the fourth quarter relative to the preceding quarters in the Company's fiscal year.

Note 2. Significant Accounting Policies

The significant accounting policies and critical accounting estimates and judgments as disclosed in the Company's 2014 audited annual financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements. These unaudited interim period condensed consolidated financial statements are presented in Canadian dollars.

Statement of Compliance

The unaudited interim period condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards and International Accounting Standard 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. The unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company's 2014 audited annual consolidated financial statements and accompanying notes.

These unaudited interim period condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on July 22, 2015.

Changes to Significant Accounting Policies

Intangible Assets The classification of software costs requires judgment to determine whether such costs should be classified as fixed assets or intangible assets. Management has reviewed the classification of the Company's software costs, primarily related to the implementation of its new information technology ("IT") systems, and has determined that it would be appropriate to present certain costs as intangible assets. The Company implemented the change retrospectively in the first quarter of 2015, with the following impact:

Condensed Consolidated Balance Sheets Increase (Decrease) (millions of Canadian dollars)	As at June 14, 2014	As at January 3, 2015	As at December 29, 2013
Fixed Assets	$ (517)	$ (498)	$ (590)
Intangible Assets	517	498	590

In addition, the Company reassessed and revised the useful life of its new IT systems from five to seven years. This revision represents a change in estimate resulting in a current year reduction of depreciation and amortization expense, related to these assets, of approximately $34 million compared to 2014.

Note 3. Interests in Other Entities

Consolidation of Franchises In 2015, the Company implemented a new franchise agreement ("Franchise Agreement") with the franchisees of the Company's retail food stores. All new franchises will be subject to the Franchise Agreement. Existing franchises will be converted to the Franchise Agreement as the existing agreements expire. The Company has determined that franchises subject to the Franchise Agreement will be consolidated based on the concept of control, which is determined, for accounting purposes, to exist through the Franchise Agreement.

As at June 20, 2015, 16 franchises were consolidated. As a result, the Company has recognized non-controlling interests, representing the investment the franchisees have in the net assets of their businesses. This amount has been included in non-controlling interests as a component of equity. There was no significant impact on the Company's operating income or net earnings in the unaudited interim period condensed consolidated financial statements as a result of the consolidation of the franchises.

Note 4. 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 $12,273 million, comprised of approximately $6,600 million of cash and the issuance of approximately 119.5 million common shares of the Company. The Company also issued 10.5 million common shares to Weston for cash that was used in connection with the acquisition of Shoppers Drug Mart.

In the first quarter of 2015, the Company finalized the purchase price allocation and revised its fair value estimate of the Optimum loyalty program liability retrospective to the date of acquisition. The result increased trade payables and other liabilities by $102 million to $1,026 million, decreased deferred income tax liabilities by $27 million to $2,225 million and increased goodwill by $75 million to $2,360 million. The finalized purchase price allocation is summarized as follows:

(millions of Canadian dollars)

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		9,440
Goodwill		2,360
Deferred income tax assets		68
Other assets		7
Bank indebtedness		(295)
Trade payables and other liabilities		(1,026)
Income taxes payable		(11)
Associate interest		(174)
Provisions		(19)
Long term debt		(1,127)
Deferred income tax liabilities		(2,225)
Other liabilities		(164)
Total Net Assets Acquired	**$**	**12,273**

In the fourth quarter of 2014, the Company revised its fair value estimate of intangible assets and updated the purchase price equation. The result was to decrease intangible assets by $35 and deferred income tax liabilities by $9 million, and increase goodwill by $26 million.

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	$	5,005	11 years
Brands		3,390	indefinite
Optimum loyalty program		490	18 years
Other		555	5 to 10 years
Total Intangible Assets	**$**	**9,440**	

Pursuant to a Consent Agreement reached with the Competition Bureau in 2014, 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. In the first quarter of 2015, the Company met this requirement by completing all required divestitures with the sale of three remaining Shoppers Drug Mart stores. The Company received gross proceeds of $9 million and recorded a loss of $2 million in operating income related to these final divestitures. Since the closing of the acquisition, the Company received gross proceeds of $69 million and recognized a cumulative net divestitures loss of $14 million.

As at June 14, 2014, on a year-to-date basis, the Company incurred costs totalling $75 million related to the acquisition of Shoppers Drug Mart. Of this amount, during the second quarter and year-to-date 2014, $52 million and $60 million, respectively, were recorded in selling, general and administrative expenses and nil and $15 million, respectively, were recorded in net interest expense and other financing charges.

Note 5. Net Interest Expense and Other Financing Charges

(millions of Canadian dollars)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Interest expense and other financing charges:				
Long term debt	**$ 120**	$ 128	**$ 232**	$ 199
Shoppers Drug Mart acquisition-related costs (note 4)	**—**	—	**—**	18
Borrowings related to credit card receivables	**9**	9	**18**	18
Trust Unit distributions	**11**	7	**22**	18
Post-employment and other long term employee benefits (note 17)	**3**	3	**6**	5
Independent funding trusts	**3**	4	**7**	7
Dividends on capital securities (note 15)	**4**	4	**7**	7
Fair value adjustment of Trust Unit Liability (note 18)	**(33)**	8	**25**	20
Capitalized interest	**(1)**	(1)	**(2)**	(1)
	$ 116	$ 162	**$ 315**	$ 291
Interest income:				
Accretion income	**$ (6)**	$ (7)	**$ (13)**	$ (13)
Short term interest income	**(4)**	(4)	**(4)**	(9)
Security deposits(i)	**—**	(1)	**—**	(4)
	$ (10)	$ (12)	**$ (17)**	$ (26)
Net interest expense and other financing charges	**$ 106**	$ 150	**$ 298**	$ 265

(i) The 24 weeks ended June 14, 2014 includes interest income of $3 million related to $1,600 million of proceeds from the issuance of senior unsecured notes previously held in escrow, which were used to partially fund the acquisition of all of the outstanding common shares of Shoppers Drug Mart.

Note 6. Income Taxes

Income tax expense for the second quarter of 2015 was $121 million (2014 – recovery of $150 million) and the effective income tax rate was 39.4% (2014 – 24.8%). The increase in the effective tax rate compared to the second quarter of 2014 was primarily attributable to an increase in deferred tax expense as a result of an increase in the Alberta statutory corporate income tax rate enacted during the quarter. Year-to-date income tax expense was $197 million (2014 – recovery of $109 million) and the effective tax rate was 37.2% (2014 – 24.5%). The increase in the effective tax rate was primarily attributable to an increase in deferred tax expense as a result of the increase in the Alberta statutory corporate income tax rate enacted during the second quarter of 2015 and a decrease in certain non-taxable items.

Note 7. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Net earnings (loss) available to common shareholders of the Company	**$ 185**	$ (456)	**$ 331**	$ (336)
Weighted average common shares outstanding (note 15) (in millions)	**412.0**	403.0	**412.0**	342.2
Dilutive effect of equity-based compensation (in millions)	**4.2**	—	**4.2**	—
Dilutive effect of certain other liabilities (in millions)	**0.5**	—	**0.5**	—
Diluted weighted average common shares outstanding (in millions)	**416.7**	403.0	**416.7**	342.2
Basic net earnings (loss) per common share ($)	**$ 0.45**	$ (1.13)	**$ 0.80**	$ (0.98)
Diluted net earnings (loss) per common share ($)	**$ 0.44**	$ (1.13)	**$ 0.79**	$ (0.98)

For the second quarter of 2015, 10,934,059 (2014 – 14,268,556) and year-to-date 10,933,482 (2014 – 14,534,427) potentially dilutive instruments were excluded from the computation of diluted net earnings (loss) per common share as they were anti-dilutive.

Note 8. Cash and Cash Equivalents, Short Term Investments and Security Deposits

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

Cash and Cash Equivalents

(millions of Canadian dollars)	**As at June 20, 2015**	As at June 14, 2014	As at January 3, 2015
Cash	**$ 431**	$ 440	$ 464
Cash equivalents:			
Government treasury bills	**520**	307	463
Bankers' acceptances	**153**	295	57
Bank term deposits	**100**	—	—
Corporate commercial paper	**81**	137	15
Total cash and cash equivalents	**$ 1,285**	$ 1,179	$ 999

Short Term Investments

(millions of Canadian dollars)	**As at June 20, 2015**	As at June 14, 2014	As at January 3, 2015
Government treasury bills	**$ 42**	$ 13	$ 17
Bankers' acceptances	**10**	—	2
Government agencies securities	**—**	30	—
Corporate commercial paper	**—**	2	1
Other	**—**	2	1
Total short term investments	**$ 52**	$ 47	$ 21

Security Deposits

(millions of Canadian dollars)	**As at June 20, 2015**	As at June 14, 2014	As at January 3, 2015
Cash	**$ 7**	$ 97	$ 7
Total security deposits	**$ 7**	$ 97	$ 7

As at June 20, 2015, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $143 million (June 14, 2014 – $137 million; January 3, 2015 – $141 million), of which $5 million (June 14, 2014 – $97 million; January 3, 2015 – $7 million) was deposited with major financial institutions and classified as security deposits.

Note 9. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	**As at June 20, 2015**	As at June 14, 2014	As at January 3, 2015
Gross credit card receivables	**$ 2,695**	$ 2,609	$ 2,684
Allowance for credit card receivables	**(48)**	(48)	(54)
Credit card receivables	**$ 2,647**	$ 2,561	$ 2,630
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust®*	**$ 750**	$ 750	$ 750
Securitized to Other Independent Securitization Trusts	**505**	605	605

The Company, through President's Choice Bank ("PC Bank"), participates in various securitization programs that provides a source of funds for the operation of its credit card business. PC Bank maintains and monitors co-ownership interest in credit card receivables with independent securitization trusts, including *Eagle Credit Card Trust® ("Eagle")* and Other Independent Securitization Trusts, in accordance with its financing requirements.

In the first quarter of 2015, PC Bank reduced $100 million of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts. Subsequent to the end of the second quarter of 2015, PC Bank increased its co-ownership interest held with the Other Independent Securitization Trusts by $75 million.

The associated liability of *Eagle* is recorded in long term debt (see note 13). The associated liabilities of credit card receivables securitized to the Other Independent Securitization Trusts are recorded in short term debt (see note 12).

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability and was in compliance with this requirement as at June 20, 2015 and throughout the first half of 2015.

Note 10. Inventories

For inventories recorded as at June 20, 2015, the Company recorded $31 million (June 14, 2014 – $18 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 quarter and year-to-date ended June 20, 2015 and June 14, 2014.

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

In the second quarter and year-to-date 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.

Note 11. Other Assets

(millions of Canadian dollars)		**As at June 20, 2015**		As at June 14, 2014		As at January 3, 2015
Sundry investments and other receivables	**$**	**150**	$	146	$	141
Accrued benefit plan asset		**84**		76		90
Interests in joint ventures		**8**		—		6
Other		**75**		27		44
Other assets	**$**	**317**	$	249	$	281

Note 12. Short Term Debt

The outstanding short term debt balance of $505 million (June 14, 2014 and January 3, 2015 – $605 million) relates to credit card receivables securitized to the Other Independent Securitization Trusts with recourse (see note 9).

In the first quarter of 2015, PC Bank reduced $100 million of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts, and recorded a corresponding decrease to short term debt. In addition, PC Bank extended the maturity date for certain Other Independent Securitization Trust agreements from the second quarter of 2016 to the second quarter of 2017, with all other terms and conditions remaining substantially the same.

As at June 20, 2015, the aggregate gross potential liability under letters of credit for the benefit of the Other Independent Securitization Trusts was $52 million (June 14, 2014 – $54 million; January 3, 2015 – $61 million), which represented 10% (June 14, 2014 – 9%; January 3, 2015 – 10%) of the securitized credit card receivables amount.

Subsequent to the end of the second quarter of 2015, PC Bank increased its co-ownership interest held with the Other Independent Securitization Trusts by $75 million to $580 million, and increased the aggregate gross potential liability under letters of credit by $7 million to $59 million.

Note 13. Long Term Debt

Unsecured Term Loan Facilities In the second quarter of 2015, the Company obtained $250 million through an unsecured term loan facility bearing interest at a rate equal to the Bankers' Acceptance rate plus 1.13%, maturing March 30, 2019.

In connection with the financing of the acquisition of Shoppers Drug Mart, the Company obtained a $3,500 million unsecured term loan facility ("Acquisition Term Loan"). As at June 20, 2015, the outstanding balance on the Acquisition Term Loan was $360 million (June 14, 2014 – $1,900 million, January 3, 2015 – $1,229 million). During the second quarter of 2015 and year-to-date, the Company repaid $662 million and $869 million of the Acquisition Term Loan, respectively. Since the acquisition, the Company has repaid $3,140 million of Acquisition Term Loan, including the use of net proceeds of $1,500 million from the sale of Choice Properties Transferor Notes to third parties and proceeds from the $250 million unsecured term loan obtained in the second quarter of 2015, both of which had a neutral impact on long term debt. Also included in the total amount repaid was $66 million of net proceeds from the store divestitures required pursuant to the Consent Agreement with the Competition Bureau related to the acquisition of Shoppers Drug Mart.

During the second quarter of 2015 and year-to-date, the amortization of the financing costs related to the Acquisition Term Loan was $8 million (2014 – $14 million) and $12 million (2014 – $14 million), respectively. Of the amortized amount, $8 million (2014 – $14 million) and $11 million (2014 – $14 million), respectively, was accelerated due to early repayments on the facility. The unsecured term loan facilities contain certain financial covenants, with which the Company was in compliance as at June 20, 2015 and throughout the first half of 2015.

Choice Properties Debentures In the first quarter 2015, Choice Properties issued $250 million aggregate principal amount of Series E senior unsecured debentures. These debentures bear interest at a rate of 2.30% per annum and mature on September 14, 2020. The offering was made under Choice Properties' Short Form Base Shelf Prospectus.

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 $1,500 million. Loblaw used these proceeds and existing cash to repay $1,600 million of the $3,500 million Acquisition Term Loan drawn to fund a portion of the cost to acquire Shoppers Drug Mart.

In the first quarter of 2014, Choice Properties, under its Short Form Base Shelf Prospectus, issued principal amounts of $250 million Series C and $200 million Series D senior unsecured debentures. These debentures bear interest at rates of 3.50% and 4.29% per annum and mature on February 8, 2021 and February 8, 2024, respectively. The majority of the proceeds were used to repay $440 million of Transferor Notes held by Loblaw.

Loblaw Companies Limited Medium Term Notes In the second quarter and year-to-date 2014, the Company repaid $350 million and $450 million, respectively, of medium term notes ("MTNs") on maturity.

Shoppers Drug Mart Medium Term Notes In the second quarter of 2014, 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.

Independent Funding Trusts As at June 20, 2015, the independent funding trusts had drawn $504 million (June 14, 2014 – $476 million; January 3, 2015 – $498 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts in the amount of $52 million (June 14, 2014 and January 3, 2015 – $50 million), representing not less than 10% (June 14, 2014 and January 3, 2015 – 10%) of the principal amount of loans outstanding.

Independent Securitization Trust The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables. The Company has arranged letters of credit on behalf of PC Bank, for the benefit of *Eagle* (see notes 9 and 18).

As at June 20, 2015, the aggregate gross potential liability under letters of credit for the benefit of *Eagle* was $68 million (June 14, 2014 – nil; January 3, 2015 – $68 million), which represented 9% (June 14, 2014 – nil; January 3, 2015 – 9%) of the *Eagle* notes outstanding.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for the second quarters and year-to-date of 2015 and 2014:

(millions of Canadian dollars)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Balance, beginning of period	**$ 635**	$ 443	**$ 634**	$ 430
GICs issued	**2**	116	**7**	136
GICs matured	**(16)**	(31)	**(20)**	(38)
Balance, end of period	**$ 621**	$ 528	**$ 621**	$ 528

Committed Credit Facilities As at June 20, 2015, June 14, 2014 and January 3, 2015, there were no amounts drawn under the Company's $1,000 million committed credit facility ("Credit Facility"). In the first quarter of 2015, the Company amended its Credit Facility agreement to extend the maturity date to March 31, 2020, with all other terms and conditions remaining substantially the same.

As at June 20, 2015, Choice Properties had drawn $86 million (June 14, 2014 – $37 million; January 3, 2015 – $122 million) under its $500 million senior unsecured committed credit facility. Subsequent to the end of the second quarter of 2015, Choice Properties extended the maturity date of this facility to July 5, 2020.

These facilities contain certain financial covenants, with which the Company and Choice Properties were in compliance as at June 20, 2015 and throughout the first half of 2015.

In the second quarter of 2014, upon closing of the Shoppers Drug Mart acquisition, the outstanding balance of $478 million owing on Shoppers Drug Mart's revolving bank credit facility, was repaid and the facility was cancelled.

Long Term Debt due Within One Year The following table summarizes long term debt due within one year:

(millions of Canadian dollars)	As at June 20, 2015	As at June 14, 2014	As at January 3, 2015
Loblaw Companies Limited Medium Term Notes	**$ 300**	$ —	$ —
Independent Securitization Trust	**350**	—	350
Shoppers Drug Mart Medium Term Notes	**225**	—	—
Guaranteed Investment Certificates	**86**	33	29
Finance Lease Obligations	**45**	38	38
Long term debt secured by mortgage	**3**	3	3
Long term debt due within one year	**$ 1,009**	$ 74	$ 420

Note 14. Other Liabilities

(millions of Canadian dollars)	As at June 20, 2015	As at June 14, 2014	As at January 3, 2015
Net defined benefit plan obligation	**$ 360**	$ 291	$ 311
Other long term employee benefit obligation	**115**	115	116
Equity-based compensation liability (note 16)	**8**	15	7
Fair value adjustment to acquired leases	**97**	111	104
Deferred lease obligation	**83**	70	77
Other	**147**	161	167
Other liabilities	**$ 810**	$ 763	$ 782

Note 15. Share Capital

Second Preferred Share Capital (authorized – unlimited) Second preferred shares issued are fully paid, have no par value and are issuable in series. In the second quarter of 2015, the Company issued 9.0 million 5.30% non-voting Second Preferred Shares, Series B, with a face value of $225 million. These shares entitle the holder to receive fixed cumulative preferential cash dividends of approximately $1.325 per share per annum, as and when declared by the Board, which will accrue from the date of issue and are payable quarterly on the last day of March, June, September and December of each year.

The Second Preferred Shares, Series B do not have a fixed maturity date and are not redeemable at the option of the holder. The following table outlines the redemption price at which the Company may redeem the Second Preferred Shares, Series B for cash, in whole or in part, and in each case together with all accrued and unpaid dividends to but not including the redemption date.

Redemption Period		Redemption Price
On and After:	**Prior to:**	
June 30, 2020	June 30, 2021	$ 26.00
June 30, 2021	June 30, 2022	25.75
June 30, 2022	June 30, 2023	25.50
June 30, 2023	June 30, 2024	25.25
June 30, 2024	–	25.00

As at June 20, 2015, the Second Preferred Shares, Series B in the amount of $221 million, net of $4 million of after-tax issuance costs, are presented as a component of equity in the condensed consolidated balance sheet.

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 was as follows:

(millions of Canadian dollars except where otherwise indicated)	**June 20, 2015 (12 weeks) Number of Common Shares**	**June 20, 2015 (12 weeks) Common Share Capital**	June 14, 2014 (12 weeks) Number of Common Shares	June 14, 2014 (12 weeks) Common Share Capital	**June 20, 2015 (24 weeks) Number of Common Shares**	**June 20, 2015 (24 weeks) Common Share Capital**	June 14, 2014 (24 weeks) Number of Common Shares	June 14, 2014 (24 weeks) Common Share Capital
Issued and outstanding, beginning of period	**412,604,989**	**$ 7,872**	282,615,781	$ 1,661	**412,480,891**	**$ 7,860**	282,311,573	$ 1,648
Issued for settlement of stock options	**371,684**	**18**	1,404,860	65	**775,882**	**35**	1,709,068	78
Issued for acquisition of Shoppers Drug Mart (note 4)	**—**	**—**	119,471,382	5,619	**—**	**—**	119,471,382	5,619
Issued to controlling shareholder (note 4)	**—**	**—**	10,515,247	500	**—**	**—**	10,515,247	500
Purchased and cancelled	**(590,388)**	**(12)**	(1,263,900)	(24)	**(870,488)**	**(17)**	(1,263,900)	(24)
Issued and outstanding, end of period	**412,386,285**	**$ 7,878**	412,743,370	$ 7,821	**412,386,285**	**$ 7,878**	412,743,370	$ 7,821
Shares held in trust, beginning of period	**(633,682)**	**$ (9)**	(831,264)	$ (5)	**(555,046)**	**$ (3)**	(1,067,323)	$ (6)
Purchased for future settlement of RSUs and PSUs	**(167,450)**	**(4)**	—	—	**(543,853)**	**(11)**	—	—
Release for settlement of RSUs and PSUs (note 16)	**11,489**	**1**	10,885	—	**309,256**	**2**	246,944	1
Shares held in trust, end of period	**(789,643)**	**$ (12)**	(820,379)	$ (5)	**(789,643)**	**$ (12)**	(820,379)	$ (5)
Issued and outstanding, net of shares held in trust, end of period	**411,596,642**	**$ 7,866**	411,922,991	$ 7,816	**411,596,642**	**$ 7,866**	411,922,991	$ 7,816
Weighted average outstanding, net of shares held in trust	**411,978,938**		402,951,088		**411,972,280**		342,208,842	

Dividends The following table summarizes the Company's cash dividends declared for the second quarters and year-to-date of 2015 and 2014:

	June 20, 2015[(i)] (12 weeks)	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Dividends declared per share ($):				
Common share	**$ 0.250**	$ 0.245	**$ 0.495**	$ 0.485
Second Preferred Share, Series A	**$ 0.37**	$ 0.37	**$ 0.74**	$ 0.74

(i) The 2015 second quarter dividends of $0.250 per share declared on common shares have a payment date of July 1, 2015. The 2015 second quarter dividends of $0.37 per share declared on Second Preferred Shares, Series A have a payment date of July 31, 2015.

For financial statement presentation purposes, Second Preferred Shares, Series A dividends for the second quarter of 2015 of $4 million (2014 – $4 million) and $7 million (2014 – $7 million) year-to-date, were included as a component of net interest expense and other financing charges in the condensed consolidated statements of earnings (see note 5).

Subsequent to the end of the second quarter of 2015, the Board declared a quarterly dividend of $0.250 per common share, payable on October 1, 2015 to shareholders of record on September 15, 2015 and a dividend on the Second Preferred Shares, Series B of $0.41 per share payable on September 30, 2015 to shareholders of record on September 15, 2015. No dividends were declared on the Second Preferred Shares, Series A.

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

(millions of Canadian dollars except where otherwise indicated)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**590,388**	1,263,900	**870,488**	1,263,900
Cash consideration paid	**$ 38**	$ 59	**$ 55**	$ 59
Premium charged to Retained Earnings	**26**	35	**38**	35
Reduction in Common Share Capital	**12**	24	**17**	24
Common shares repurchased under the NCIB and held in trust (number of shares)	**167,450**	—	**543,853**	—
Cash consideration paid	**$ 11**	$ —	**$ 35**	$ —
Premium charged to Retained Earnings	**7**	—	**24**	—
Reduction in Common Share Capital	**4**	—	**11**	—

In the second quarter of 2015, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 21,931,288 of the Company's common shares, representing approximately 10% of the public float. 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 16. Equity-Based Compensation

The Company's equity-based compensation expense which includes Loblaw Stock Option, Restricted Share Unit ("RSU"), Performance Share Unit ("PSU"), Director Deferred Share Unit, Executive Deferred Share Unit plans, and the unit-based compensation plans of Choice Properties, was $14 million for the second quarter of 2015 (2014 – $25 million) and $31 million year-to-date (2014 – $32 million). The expense was recognized in operating income.

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

(millions of Canadian dollars)	**As at June 20, 2015**	As at June 14, 2014	As at January 3, 2015
Trade payables and other liabilities	**$ 2**	$ 2	$ 3
Other liabilities (note 14)	**8**	15	7
Contributed surplus	**114**	92	104

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

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

(Number of Options)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Outstanding options, beginning of period	**9,427,498**	10,100,593	**8,364,884**	10,995,995
Granted	**24,478**	1,654,540	**1,539,509**	1,654,540
Converted options	**—**	1,026,118	**—**	1,026,118
Exercised	**(371,684)**	(1,404,860)	**(775,882)**	(1,709,068)
Forfeited/cancelled	**(114,488)**	(158,579)	**(162,707)**	(249,838)
Expired	**—**	(234,746)	**—**	(734,681)
Outstanding options, end of period	**8,965,804**	10,983,066	**8,965,804**	10,983,066

During the second quarter of 2015, the Company granted stock options with a weighted average exercise price of $63.47 (2014 – $47.51) and $63.49 year-to-date (2014 – $47.51). The Company converted Shoppers Drug Mart stock options to Loblaw stock options in the second quarter and year-to-date 2014 with a weighted average exercise price of $35.26. In addition, the Company issued common shares on the exercise of stock options with a weighted average market share price during the second quarter of 2015 of $63.31 (2014 – $47.14) and $63.26 year-to-date (2014 – $46.60), and received cash consideration of $14 million (2014 – $54 million) during the second quarter of 2015 and $28 million (2014 – $64 million) year-to-date.

The fair value of stock options granted during the second quarter of 2015 was nominal (2014 – $13 million) and $13 million (2014 – $13 million) year-to-date. The fair value of converted Shoppers Drug Mart stock options to Loblaw stock options during the second quarter and year-to-date 2014 was $13 million.The assumptions used to measure the fair value of options granted and converted during 2015 and 2014 under the Black-Scholes valuation model at date of grant were as follows:

	June 20, 2015 (12 weeks)	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Expected dividend yield	**1.6%**	2.1%	**1.6%**	2.1%
Expected share price volatility	**18.5% – 19.5%**	19.0% – 23.2%	**18.5% – 20.1%**	19.0% – 23.2%
Risk-free interest rate	**0.9% – 1.4%**	1.1% – 1.9%	**0.8% – 1.4%**	1.1% – 1.9%
Expected life of options	**3.9 – 6.3 years**	1.0 – 6.5 years	**3.9 – 6.3 years**	1.0 – 6.5 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at June 20, 2015 was 11.0% (June 14, 2014 – 12.0%).

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

(Number of Awards)	**June 20, 2015 (12 weeks)**	June 14, 2014(i) (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014(i) (24 weeks)
RSUs, beginning of period	**1,438,860**	842,673	**1,462,790**	1,084,514
Granted	**17,526**	396,630	**267,237**	396,630
Reinvested	**2,108**	—	**2,108**	—
Settled	**(6,952)**	(9,192)	**(251,759)**	(244,042)
Forfeited	**(18,275)**	(10,186)	**(47,109)**	(17,177)
RSUs, end of period	**1,433,267**	1,219,925	**1,433,267**	1,219,925

(i) In 2014, the Company converted Shoppers Drug Mart RSUs to Loblaw RSUs, which initially required settlement in cash. As at June 14, 2014, the number of cash settled converted RSUs outstanding, not included in the continuity, was 605,531 after forfeitures and reinvested dividends. On November 10, 2014, the Company amended the plan for the then remaining converted RSUs to require settlement in shares. These converted RSUs were included in the continuity as of the amendment date.

The fair value of RSUs granted during the second quarter of 2015 was $1 million (2014 – $18 million) and $16 million year-to-date (2014 – $18 million).

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

(Number of Awards)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
PSUs, beginning of period	**1,131,324**	306,228	**1,019,304**	309,110
Granted	**17,691**	813,078	**256,448**	813,078
Settled	**(4,537)**	(1,693)	**(57,847)**	(2,902)
Forfeited	**(12,759)**	(6,066)	**(86,186)**	(7,739)
PSUs, end of period	**1,131,719**	1,111,547	**1,131,719**	1,111,547

The fair value of PSUs granted during the second quarter of 2015 was $1 million (2014 – $36 million) and $15 million year-to-date (2014 – $36 million).

Settlement of Awards from Shares Held in Trust The Company settled RSUs and PSUs totaling 11,489 during the second quarter of 2015 (2014 – 10,885) and 309,606 year-to-date (2014 – 246,944), of which 11,489 (2014 – 10,885) and 309,256 (2014 – 246,944), respectively, were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 15).

The settlements in the second quarter of 2015 and year-to-date resulted in a nominal and $11 million increase to retained earnings, respectively (2014 – nominal and $9 million, respectively), and a $1 million and $2 million increase to common share capital, respectively (2014 – nominal and $1 million, respectively).

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

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

(millions of Canadian dollars)	**June 20, 2015 (12 weeks)**	June 14, 2014 (12 weeks)	**June 20, 2015 (24 weeks)**	June 14, 2014 (24 weeks)
Post-employment benefit costs recognized in operating income(i)	**$ 33**	$ 30	**$ 71**	$ 63
Other long term employee benefits costs recognized in operating income(ii)	**5**	5	**9**	11
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 5)	**3**	3	**6**	5
Actuarial (gains) losses before income taxes recognized in other comprehensive income	**(14)**	(31)	**7**	62

(i) Includes costs related to the Company's defined benefit plans, defined contribution pension plans and the multi-employer pension plans in which it participates.

(ii) Includes costs related to the Company's long term disability plan.

The actuarial gains recognized in second quarter of 2015 were primarily driven by increases in the discount rates partially offset by lower than expected returns on assets, while year-to-date losses were primarily driven by decreases in discount rates partially offset by higher than expected returns on assets. The actuarial gains recognized in the second quarter of 2014 were primarily driven by higher than expected returns on assets, while year-to-date losses were primarily driven by decreases in discount rates, partially offset by higher than expected returns on assets.

Note 18. Financial Instruments

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:

				As at June 20, 2015				As at June 14, 2014				As at January 3, 2015
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:												
Cash and cash equivalents	**$ 1,204**	**$ 81**	**$ —**	**$ 1,285**	$ 1,042	$ 137	$ —	$ 1,179	$ 984	$ 15	$ —	$ 999
Short term investments	**52**	**—**	**—**	**52**	43	4	—	47	19	2	—	21
Security deposits	**7**	**—**	**—**	**7**	97	—	—	97	7	—	—	7
Franchise loans receivable	**—**	**—**	**384**	**384**	—	—	380	380	—	—	399	399
Certain other assets(i)	**26**	**32**	**66**	**124**	—	22	54	76	—	8	64	72
Derivatives included in prepaid expenses and other assets	**1**	**6**	**—**	**7**	—	—	1	1	—	10	—	10
Financial liabilities:												
Derivatives included in trade payables and other liabilities	**—**	**6**	**—**	**6**	—	1	—	1	—	11	4	15
Trust unit liability	**756**	**—**	**—**	**756**	715	—	—	715	722	—	—	722
Long term debt	**—**	**12,039**	**—**	**12,039**	—	12,768	—	12,768	—	12,508	—	12,508
Capital securities(ii)	**228**	**—**	**—**	**228**	238	—	—	238	234	—	—	234
Certain other liabilities(i)	**—**	**—**	**28**	**28**	—	3	5	8	—	—	28	28

(i) Certain other assets and Certain other liabilities are included in the condensed consolidated balance sheets in Other Assets and Other Liabilities, respectively.

(ii) As at June 20, 2015 and January 3, 2015, capital securities were classified as current liabilities. As at June 14, 2014, capital securities were classified as non-current liabilities.

The carrying value of the Company's financial instruments approximates its fair value except for long term debt and capital securities.

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

During the second quarter of 2015, the Company recognized a loss of $2 million (2014 – loss of $4 million) and a gain of $1 million year-to-date (2014 – gain of $3 million) in operating income on financial instruments designated as fair value through profit or loss. In addition, during the second quarter of 2015, a gain of $30 million (2014 – loss of $6 million) and a loss of $8 million year-to-date (2014 – loss of $16 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Embedded Derivatives The level 3 financial instruments classified as fair value through profit or loss as at June 20, 2015, June 14, 2014 and January 3, 2015 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 one of the inputs could result in a significantly higher (lower) fair value measurement.

The fair value of the embedded foreign currency derivatives classified as Level 3 included in prepaid expenses and other assets as at June 20, 2015 was nominal (June 14, 2014 – $1 million; January 3, 2015 – $4 million in trade payables and other liabilities). During the second quarter of 2015 and year-to-date, a $4 million gain (2014 – $4 million gain) was recorded in operating income. As at June 20, 2015, a 1% increase (decrease) in foreign currency exchange rates would result in a $1 million gain (loss) in fair value.

Other Derivatives The Company also maintains other financial derivatives including foreign exchange forwards, electricity forwards and fuel exchange traded futures and options, which are classified as fair value through profit or loss. During the second quarter of 2015, the Company recognized a fair value loss of $7 million (2014 – loss of $3 million) and a fair value gain of $13 million year-to-date (2014 – nominal gain) in operating income related to these derivatives.

The following table summarizes the cumulative unrealized impact of these other derivatives included in the condensed consolidated balance sheets:

(millions of Canadian dollars)	**As at June 20, 2015**	As at June 14, 2014	As at January 3, 2015
Cumulative unrealized gains recorded in prepaid expenses and other assets	**$ 6**	$ —	$ 10
Cumulative unrealized losses recorded in trade payables and other liabilities	**6**	1	11

Trust Unit Liability As at June 20, 2015, the fair value of the Trust Unit Liability of $756 million (June 14, 2014 – $715 million; January 3, 2015 – $722 million) was recorded on the condensed consolidated balance sheets. During the second quarter of 2015, the Company recorded a fair value gain of $33 million (2014 – loss of $8 million) and a loss of $25 million year-to-date (2014 – loss of $20 million) in net interest expense and other financing charges related to Choice Properties' Trust Units ("Units").

As at June 20, 2015, 68,593,944 Units were held by unitholders other than the Company (June 14, 2014 – 66,836,592; January 3, 2015 – 67,755,010). Choice Properties issued 414,807 Units during the second quarter of 2015 (2014 – 381,641) and 838,934 Units year-to-date (2014 – 722,363), to eligible unitholders under its distribution reinvestment plan. Units held by unitholders other than the Company are presented as a liability on the Company's condensed consolidated balance sheets as the Units are redeemable for cash at the option of the holder, subject to certain restrictions. As at June 20, 2015, the Company held an 83.1% (June 14, 2014 – 82.6%; January 3, 2015 – 82.9%) effective ownership interest in Choice Properties.

Franchise Loans Receivable and Franchise Investments in Other Assets The value of Loblaw franchise loans receivable of $384 million (June 14, 2014 – $380 million; January 3, 2015 – $399 million) was recorded on the condensed consolidated balance sheets. In the second quarter of 2015, the Company recorded a nominal impairment loss (2014 – loss of $4 million) and nominal impairment loss year-to-date (2014 – loss of $5 million) in operating income related to these loans receivable.

The value of Loblaw franchise investments was $61 million (June 14, 2014 – $54 million; January 3, 2015 – $62 million) and was recorded in other assets. During the second quarter of 2015, the Company recorded a loss of $2 million (2014 – gain of $8 million) and $4 million (2014 – gain of $9 million) year-to-date in operating income related to these investments.

The following is a description of the Company's financial instruments that are measured at fair valued through other comprehensive income:

Foreign Exchange Forwards During the first and second quarters of 2015, PC Bank entered into USD foreign exchange forward agreements to hedge its exposure on certain USD payables. These agreements, which mature by June 2016, qualify for hedge accounting as cash flow hedges of future foreign currency transactions. Accordingly, during the second quarter of 2015 and year-to-date, PC Bank recorded a nominal unrealized fair value gain in other comprehensive income related to the effective portion of these agreements.

Bond Forward In the second quarter of 2015, in connection with expected funding needs in the latter half of 2015, PC Bank entered into bond forward agreements of $350 million to hedge its exposure to interest rate changes prior to obtaining financing. These agreements qualify for hedge accounting as cash flow hedges of future interest payments. Accordingly, during the second quarter of 2015 and year-to-date, a nominal unrealized fair value gain on the effective portion of the bond forward agreements was recorded in other comprehensive income.

As at June 20, 2015, an unrealized fair value gain of $1 million (June 14, 2014 and January 3, 2015 – nil) was included in prepaid expenses and other assets related to these forwards.

Securities Investments In the first quarter of 2015, PC Bank purchased and designated certain long term investments as available-for-sale financial assets, which are measured at fair value through other comprehensive income. As at June 20, 2015, the fair value of these investments of $26 million was included in other assets. During the second quarter of 2015 and year-to-date, PC Bank recorded a nominal fair value loss in other comprehensive income related to these investments. These investments are considered part of the liquid securities required to be held by PC Bank to meet its Liquidity Coverage Ratio standard, which was established under the Office of the Superintendent of Financial Institutions' final Guideline on Liquidity Adequacy Requirements, effective January 1, 2015.

Note 19. 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 unaudited interim period condensed 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.

In the second quarter of 2015, a class action was commenced in the Ontario Superior Court of Justice against the Company and certain subsidiaries, Weston, and others in Canada in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The class action, which has not yet been formally served on the Company, seeks approximately $2 billion in damages. The Company believes the class action is without merit and intends to vigorously defend itself against any claims arising out of any such action.

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 intended to proceed with reassessments of the tax treatment of the Company's wholly owned 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.

During the second quarter of 2015, the Company received reassessments from the CRA and the Ontario Ministry of Finance for the 2000 to 2010 taxation years totaling $341 million including interest and penalties. The Company believes it is likely that the CRA will issue reassessments for the 2011 to 2013 taxation years on the same or similar basis. The Company strongly disagrees with the CRA's position and has filed a Notice of Appeal. No amount for any reassessments has been provided for in the Company's unaudited interim period condensed consolidated financial statements.

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

Note 20. Restructuring and Other Related Costs

Subsequent to the end of the second quarter of 2015, the Company finalized a restructuring plan that will result in the closure of approximately 52 retail locations. The Company expects that the closures will take place over the next 12 months.

The restructuring and other related costs associated with the restructuring plan are expected to total approximately $120 million. Of this amount, a charge of $45 million was recorded in the second quarter of 2015. The Company expects approximately $70 million to be recognized in the third quarter of 2015, with the remainder expected to be incurred as stores close.

Note 21. Segment Information

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

- The Retail segment consists primarily of retail food and Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, gas bars and apparel and other general merchandise. This segment is comprised of several operating segments, which have been aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base;
- The Financial Services segment provides credit card services, loyalty programs, 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(2) and adjusted operating income(2), as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

					June 20, 2015 (12 weeks)					June 14, 2014 (12 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services(4)**	**Choice Properties(4)**	**Consolidation and Eliminations(i)**	**Total**	Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations(i)	Total
Revenue(ii)	**$ 10,318**	**$ 199**	**$ 183**	**$ (165)**	**$ 10,535**	$ 10,097	$ 192	$ 170	$ (152)	$ 10,307
EBITDA(iii)	**$ 739**	**$ 38**	**$ 115**	**$ (110)**	**$ 782**	$ (117)	$ 40	$ 122	$ (117)	$ (72)
Adjustments(iii)	**75**	**—**	**—**	**—**	**75**	866	—	—	—	866
Adjusted EBITDA(iii)	**$ 814**	**$ 38**	**$ 115**	**$ (110)**	**$ 857**	$ 749	$ 40	$ 122	$ (117)	$ 794
Depreciation and Amortization(iv)	**240**	**2**	**—**	**3**	**245**	254	2	—	3	259
Adjusted Operating Income(iii)	**$ 574**	**$ 36**	**$ 115**	**$ (113)**	**$ 612**	$ 495	$ 38	$ 122	$ (120)	$ 535
Net interest expense and other financing charges	**$ 91**	**$ 14**	**$ (75)**	**$ 76**	**$ 106**	$ 97	$ 12	$ 124	$ (83)	$ 150

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $124 million (2014 – $117 million) of rental revenue and $41 million (2014 – $35 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Operating income includes the elimination of the $124 million (2014 – $117 million) impact of rental revenue described above; the elimination of a $16 million loss (2014 – nil) 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; the recognition of $3 million (2014 – $3 million) of depreciation expense for certain investment properties recorded by Choice Properties and measured at fair value; and the elimination of $2 million (2014 – nil) intercompany charges.
- Net interest expense and other financing charges includes the elimination of $62 million (2014 – $105 million) of interest expense included in Choice Properties related to debt owing to the Company and a $160 million fair value gain (2014 – gain of $11 million) recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of $11 million (2014 – $11 million), which excludes distributions paid to the Company, a $33 million fair value gain (2014 – loss of $8 million) on the Company's Trust Unit Liability and, in 2014, the elimination of $8 million of Choice Properties interest expense incurred to June 30, 2014.

(ii) Included in Financial Services revenue is $89 million (2014 – $86 million) of interest income.

(iii) 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.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $124 million (2014 – $125 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

	June 20, 2015 (24 weeks)					June 14, 2014 (24 weeks)				
(millions of Canadian dollars)	Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations(i)	Total	Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations(i)	Total
Revenue(ii)	$20,148	$ 398	$ 365	$ (328)	$20,583	$17,192	$ 372	$ 337	$ (302)	$ 17,599
EBITDA(iii)	$ 1,473	$ 83	$ 242	$ (232)	$ 1,566	$ 313	$ 78	$ 240	$ (232)	$ 399
Adjusting Items(iii)	80	—	—	—	80	876	—	1	—	877
Adjusted EBITDA(iii)	$ 1,553	$ 83	$ 242	$ (232)	$ 1,646	$ 1,189	$ 78	$ 241	$ (232)	$ 1,276
Depreciation and Amortization(iv)	480	5	—	6	491	444	4	—	6	454
Adjusted Operating Income(iii)	$ 1,073	$ 78	$ 242	$ (238)	$ 1,155	$ 745	$ 74	$ 241	$ (238)	$ 822
Net interest expense and other financing charges	$ 177	$ 28	$ 264	$ (171)	$ 298	$ 167	$ 25	$ 250	$ (177)	$ 265

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $247 million (2014 – $232 million) of rental revenue and $81 million (2014 – $70 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Operating income includes the elimination of the $247 million (2014 – $232 million) impact of rental revenue described above; the elimination of a $17 million loss (2014 – nil) 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; the recognition of $6 million (2014 – $6 million) of depreciation expense for certain investment properties recorded by Choice Properties and measured at fair value; and the elimination of $2 million (2014 – nil) intercompany charges.
- Net interest expense and other financing charges includes the elimination of $124 million (2014 – $174 million) of interest expense included in Choice Properties related to debt owing to the Company and a $94 million fair value loss (2014 – loss of $37 million) recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of $22 million (2014 – $22 million), which excludes distributions paid to the Company, a $25 million fair value loss (2014 – loss of $20 million) on the Company's Trust Unit Liability and, in 2014, the elimination of $8 million of Choice Properties interest expense incurred to June 30, 2014.

(ii) Included in Financial Services revenue is $181 million (2014 – $175 million) of interest income.

(iii) 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.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $248 million (2014 – $125 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	As at June 20, 2015	As at June 14, 2014	As at January 3, 2015
Total Assets			
Retail	$ 30,138	$ 30,648	$ 30,048
Financial Services(i)	3,117	2,881	3,094
Choice Properties(i)	8,465	7,719	8,192
Consolidation and Eliminations(ii)	(7,856)	(7,157)	(7,575)
Total	$ 33,864	$ 34,091	$ 33,759

(i) For segment presentation purposes, the results are for the quarter ended June 30, 2015, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to June 20, 2015 are included in Consolidation and Eliminations.

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

(millions of Canadian dollars)		June 20, 2015 (12 weeks)		June 14, 2014 (12 weeks)		June 20, 2015 (24 weeks)		June 14, 2014 (24 weeks)
Additions to Fixed Assets and Intangible Assets								
Retail	**$**	**196**	$	206	**$**	**401**	$	293
Financial Services[(i)]		**3**		5		**5**		10
Choice Properties[(i)]		**122**		86		**233**		111
Consolidation and Eliminations[(ii)]		**(100)**		(58)		**(187)**		(58)
Total	**$**	**221**	$	239	**$**	**452**	$	356

(i) For segment presentation purposes, the results are for the quarter ended June 30, 2015, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to June 20, 2015 are included in Consolidation and Eliminations.

(ii) Consolidations and Eliminations includes the elimination of investment properties acquired by Choice Properties from the Retail segment.

Financial Summary[1]

As at or for the periods ended June 20, 2015 and June 14, 2014 (millions of Canadian dollars except where otherwise indicated)		2015 (12 weeks)		2014 (12 weeks)
Consolidated Results of Operations				
Revenue	**$**	**10,535**	$	10,307
Revenue growth		**2.2%**		37.1%
Operating income	**$**	**413**	$	(456)
Adjusted operating income[2]		**612**		535
Adjusted operating margin[2]		**5.8%**		5.2%
EBITDA[2]	**$**	**782**	$	(72)
Adjusted EBITDA[2]		**857**		794
Adjusted EBITDA margin[2]		**8.1%**		7.7%
Net interest expense and other financing charges	**$**	**106**	$	150
Adjusted net interest expense and other financing charges[2]		**131**		128
Net earnings (loss)		**186**		(456)
Net earnings (loss) attributable to shareholders of the Company		**185**		(456)
Adjusted net earnings available to common shareholders[2]		**350**		297
Adjusted debt[2] to rolling year adjusted EBITDA[2]		**2.7x**		4.5x
Rolling year adjusted return on equity[3]		**11.1%**		8.5%
Rolling year adjusted return on capital[3]		**8.5%**		7.1%
Consolidated Financial Position and Cash Flows				
Adjusted debt[2]	**$**	**9,715**	$	10,710
Cash and cash equivalents, short term investments and security deposits		**1,344**		1,323
Cash flows from operating activities		**930**		959
Capital investments		**221**		239
Free cash flow[2]		**589**		622
Consolidated Per Common Share ($)				
Basic net earnings (loss)	**$**	**0.45**	$	(1.13)
Adjusted basic net earnings[2]	**$**	**0.85**	$	0.74
Retail Results of Operations				
Sales	**$**	**10,318**	$	10,097
Gross profit		**2,711**		1,840
Adjusted gross profit[2]		**2,719**		2,652
Operating income (loss)		**375**		(496)
Adjusted operating income[2]		**574**		495
Adjusted EBITDA[2]		**814**		749
Retail Operating Statistics				
Total retail same-store sales growth		**2.5%**		1.8%
Food retail same-store sales growth		**2.1%**		1.8%
Drug retail same-store sales growth		**3.8%**		2.5%
Adjusted gross profit percentage[2]		**26.4%**		26.3%
Adjusted operating margin[2]		**5.6%**		4.9%
Adjusted EBITDA margin[2]		**7.9%**		7.4%
Total retail square footage (in millions)		**70**		70
Number of corporate stores		**609**		624
Number of franchise stores		**527**		511
Number of Associate-owned drug stores		**1,306**		1,306
Financial Services Results of Operations[4]				
Revenue	**$**	**199**	$	192
Operating income		**36**		38
Earnings before income taxes		**22**		26
Financial Services Operating Measures and Statistics[4]				
Average quarterly net credit card receivables	**$**	**2,585**	$	2,499
Credit card receivables		**2,647**		2,561
Allowance for credit card receivables		**48**		48
Annualized yield on average quarterly gross credit card receivables		**13.7%**		13.8%
Annualized credit loss rate on average quarterly gross credit card receivables		**4.7%**		4.7%
Choice Properties Results of Operations and Measures[4]				
Revenue	**$**	**183**	$	170
Operating income		**115**		122
Net interest expense and other financing charges		**(75)**		124
Adjusted funds from operations[2]		**77**		69

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 119 of the Company's 2014 Annual Report - Financial Review.

(2) See Section 13 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis.

(3) See the preface of the Company's Management's Discussion and Analysis for a definition of terms.

(4) The results for the Financial Services and Choice Properties segments are for the periods ended June 30, 2015 and June 30, 2014, consistent with the segments' fiscal calendars. Adjustments to align Financial Services' and Choice Properties' results to June 20, 2015 and June 14, 2014 are included in Consolidation and Eliminations. See Section 13 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis and Note 21 "Segment Information".

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 Corporation and Pharmaprix locations and more than 500 Loblaw banner store locations; *PC Financial* no-fee banking; affordable *Joe Fresh* fashion and family apparel; and three of Canada's top consumer brands – *President's Choice*®, *noname*® and *Life Brand*®. Through the *PC Plus*™ and *Shoppers Optimum*® loyalty programs, more than one in every three Canadians are rewarded for shopping with the Company.

Trademarks

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

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

Investor Relations

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

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on July 23, 2015 at 11:00 a.m. (ET).

To access via tele-conference please dial (416) 260-0113. The playback will be made available two hours after the event at (647) 436-0148, access code: 2383515. 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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