Loblaw

COMPANIES LIMITED

Q3

THIRD QUARTER REPORT TO SHAREHOLDERS

40 WEEKS ENDING OCTOBER 10, 2015

2015 Third Quarter Report to Shareholders

2015 Third Quarter Highlights[1]

"In the third quarter, our business remained focused on delivering the best in food experience, best in health and beauty, operational excellence, and growth," reported Galen G. Weston, President and Executive Chairman of Loblaw Companies Limited.

"While the grocery industry remained competitive, and the regulatory environment in healthcare challenging, we maintained a stable trading platform, achieved incremental efficiencies and delivered planned synergies. Having reached our deleveraging target during the quarter, we are now in a position to increase our focus on returning capital to shareholders."

Financial Highlights

- Retail segment sales were $13,715 million, an increase of 2.5% compared to the third quarter of 2014.
  - Food retail (Loblaw) same-store sales growth was 3.1%, excluding gas bar and the negative impact of a change in distribution model by a tobacco supplier; and
  - Drug retail (Shoppers Drug Mart) same-store sales growth was 4.9%, with same-store pharmacy sales increasing by 3.5% and same-store front store sales increasing by 6.2% compared to the third quarter of 2014.
- Retail adjusted gross profit percentage[2] was 26.0%, flat compared to the third quarter of 2014.
- Adjusted EBITDA[2] was $1,022 million, an increase of 2.1% compared to the third quarter of 2014.
- Net earnings available to common shareholders of the Company were $166 million, an increase of 16.9% compared to the third quarter of 2014. Adjusted net earnings available to common shareholders of the Company[2] were $408 million, an increase of 10.0% compared to the third quarter of 2014.
- Basic net earnings per common share were $0.40, an increase of 17.6% compared to the third quarter of 2014. Adjusted basic net earnings per common share[2] were $0.99, an increase of 10.0%.
- The Company realized approximately $76 million of net synergies in the quarter compared to $44 million in the third quarter of 2014. Since the close of the acquisition of Shoppers Drug Mart, the Company has realized $222 million in annualized synergies (net of related costs). The Company continues to expect to achieve annualized synergies of $300 million (net of related costs) in the third year following the close of the acquisition.
- Adjusted debt[2] decreased by $527 million compared to the second quarter of 2015. The Company has now achieved its debt reduction target following the acquisition of Shoppers Drug Mart, with a cumulative reduction of $1,872 million. The Company's adjusted debt[2] to rolling year adjusted EBITDA[2] was 2.5x as at October 10, 2015.

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 third 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 third 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. The Company excludes 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 12 "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 12 "Non-GAAP Financial Measures" of this MD&A.

The information in this MD&A is current to November 17, 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 11 "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 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 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 October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)		**2015 (16 weeks)**		2014[3] (16 weeks)
Consolidated:				
Revenue growth		**2.6%**		35.9%
Adjusted EBITDA[2]	**$**	**1,022**	$	1,001
Adjusted EBITDA margin[2]		**7.3%**		7.4%
Net earnings	**$**	**164**	$	142
Net earnings attributable to shareholders of the Company		**170**		142
Net earnings available to common shareholders of the Company[i]		**166**		142
Adjusted net earnings available to common shareholders of the Company[2]		**408**		371
Basic net earnings per common share ($)	**$**	**0.40**	$	0.34
Adjusted basic net earnings per common share[2] ($)	**$**	**0.99**	$	0.90
Cash and cash equivalents, short term investments and security deposits		**1,532**		1,035
Cash flows from operating activities		**1,068**		704
Free cash flow[2]		**578**		198
Adjusted debt[2] to rolling year adjusted EBITDA[2]		**2.5x**		3.8x
Rolling year adjusted return on equity[2]		**11.4%**		10.1%
Rolling year adjusted return on capital[2]		**8.6%**		8.5%
Retail Segment:				
Food retail same-store sales growth		**1.3%**		2.6%
Drug retail same-store sales growth		**4.9%**		2.5%
Adjusted gross profit[2]	**$**	**3,560**	$	3,473
Adjusted gross profit %[2]		**26.0%**		26.0%
Adjusted EBITDA[2]	**$**	**976**	$	954
Adjusted EBITDA margin[2]		**7.1%**		7.1%
Financial Services Segment[4]:				
Adjusted EBITDA[2]	**$**	**39**	$	42
Earnings before income taxes		**23**		27
Annualized yield on average quarterly gross credit card receivables		**13.6%**		13.8%
Annualized credit loss rate on average quarterly gross credit card receivables		**4.4%**		4.4%
Choice Properties Segment[4]:				
Adjusted EBITDA[2]	**$**	**136**	$	107
Adjusted funds from operations[2]		**79**		73

(i) Net earnings available to common shareholders of the Company is net earnings attributable to shareholders of the Company net of dividends paid on the Company's Second Preferred Shares, Series B.

3. Consolidated Results of Operations

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)	2015 (16 weeks)	2014[3] (16 weeks)	$ Change	% Change	2015 (40 weeks)	2014[3] (40 weeks)	$ Change	% Change
Revenue	**$ 13,946**	$ 13,599	$ 347	2.6 %	**$ 34,529**	$ 31,198	$ 3,331	10.7%
EBITDA[2]	**$ 935**	$ 835	$ 100	12.0 %	**$ 2,501**	$ 1,234	$ 1,267	102.7%
Adjusted EBITDA[2]	**1,022**	1,001	21	2.1 %	**2,668**	2,277	391	17.2%
Adjusted EBITDA margin[2]	**7.3%**	7.4%			**7.7%**	7.3%		
Depreciation and amortization[(i)]	**$ 313**	$ 332	$ (19)	(5.7)%	**$ 804**	$ 786	$ 18	2.3%
Net interest expense and other financing charges	**205**	150	55	36.7 %	**503**	415	88	21.2%
Adjusted net interest expense and other financing charges[2]	**152**	169	(17)	(10.1)%	**414**	385	29	7.5%
Income taxes	**$ 89**	$ 43	$ 46	107.0 %	**$ 286**	$ (66)	$ 352	533.3%
Adjusted income taxes[2]	**151**	129	22	17.1 %	**$ 392**	$ 285	$ 107	37.5%
Adjusted income tax rate[2]	**27.1%**	25.8%			**27.0%**	25.8%		
Net earnings (loss)	**$ 164**	$ 142	$ 22	15.5 %	**$ 496**	$ (194)	$ 690	355.7%
Net earnings (loss) attributable to shareholders of the Company	**170**	142	28	19.7 %	**501**	(194)	695	358.2%
Net earnings (loss) available to common shareholders of the Company[(ii)]	**166**	142	24	16.9 %	**497**	(194)	691	356.2%
Adjusted net earnings available to common shareholders of the Company[2]	**408**	371	37	10.0 %	**1,059**	821	238	29.0%
Basic net earnings (loss) per common share ($)	**$ 0.40**	$ 0.34	$ 0.06	17.6 %	**$ 1.21**	$ (0.52)	$ 1.73	332.7%
Adjusted basic net earnings per common share[2] ($)	**$ 0.99**	$ 0.90	$ 0.09	10.0 %	**$ 2.57**	$ 2.22	$ 0.35	15.8%

(i) Depreciation and amortization for the calculation of adjusted EBITDA[2] excludes $164 million (2014 – $168 million) and $412 million (2014 – $293 million) of amortization of intangible assets acquired with Shoppers Drug Mart for the third quarter of 2015 and year-to-date, respectively.

(ii) Net earnings (loss) available to common shareholders of the Company is net earnings (loss) attributable to shareholders of the Company net of dividends paid on the Company's Second Preferred Shares, Series B.

Net Earnings Available to Common Shareholders of the Company and Basic Net Earnings Per Common Share Adjusted net earnings available to common shareholders of the Company[2] were $408 million ($0.99 per common share) in the third quarter of 2015 compared to $371 million ($0.90 per common share) in the third quarter of 2014. The increase of $37 million ($0.09 per common share) was primarily due to:

- an improvement in the underlying operating performance of the Retail segment, including positive same-store sales in both Food and Drug retail and an increase in gross profit driven by sales;
- the positive contribution of net synergies;
- a reduction in depreciation and amortization in the Retail segment due to an increase in the estimated useful life of certain IT systems and lower depreciation on older IT and supply chain assets; and
- a reduction in adjusted net interest expense and other financing charges[2] primarily driven by repayments of the Company's unsecured term loan facility related to the acquisition of Shoppers Drug Mart ("Acquisition Term Loan") and matured capital securities.

Net earnings available to common shareholders of the Company were $166 million ($0.40 per common share) in the third quarter of 2015 compared to $142 million ($0.34 per common share) in the same period in 2014 and included the favourable year-over-year impact of a charge incurred in the third quarter of 2014 of $107 million ($0.19 per common share) related to the fair value increment on the acquired inventory sold associated with the acquisition of Shoppers Drug Mart.

Net earnings available to common shareholders of the Company also included:

- strong underlying performance of the Retail segment; partially offset by
- an unfavourable impact in restructuring and other related costs primarily related to the closure of certain unprofitable retail locations announced in the 2015 Second Quarter Report to Shareholders;
- the unfavourable impact of an increase in net interest expense and other financing charges, primarily due to the fair value adjustment to the Trust Unit Liability for Choice Properties Real Estate Investment Trust ("Choice Properties") Trust Units ("Units"); and
- an increase in the effective income tax rate from 23.2% to 35.2%, primarily attributable to the non-deductible fair value adjustment to the Trust Unit Liability, an increase in certain other non-deductible items and an increase in current tax as a result of an increase of 2% in the Alberta statutory corporate income tax rate.

Year-to-date adjusted net earnings available to common shareholders of the Company(2) were $1,059 million ($2.57 per common share) compared to $821 million ($2.22 per common share) in the same period in 2014. As Loblaw acquired all of the outstanding shares of Shoppers Drug Mart in the second quarter of 2014, the Company's year-to-date results in 2014 included the contribution of Shoppers Drug Mart from the date of acquisition. The increase in adjusted net earnings available to common shareholders of the Company(2) was primarily due to the improvement in the underlying operating performance of the Retail segment, including the year-over-year incremental contribution from Shoppers Drug Mart, partially offset by an increase in adjusted net interest expense and other financing charges(2) driven by higher interest on long term debt and higher adjusted income taxes(2).

Year-to-date net earnings available to common shareholders of the Company were $497 million ($1.21 per common share) an increase of $691 million ($1.73 per common share) compared to in the same period in 2014. The year-to-date increase in net earnings available to common shareholders of the Company included:

- an improvement in the underlying performance of the Retail segment;
- the favourable impacts of the prior year inventory item as previously described and the charge related to inventory measurement and other conversion differences ($1.83 per common share);
- the unfavourable impact of the amortization of acquired Shoppers Drug Mart intangible assets of $119 million ($0.15 per common share);
- the unfavourable impact of restructuring and other related costs of $115 million ($0.23 per common share);
- the favourable year-over-year impact of Shoppers Drug Mart acquisition-related costs, net of impact from divestitures of $71 million ($0.17 per common share);
- an increase in net interest expense and other financing charges, primarily due to higher interest on long term debt and a fair value adjustment to the Trust Unit Liability; and
- an increase in the effective income tax rate, primarily attributable to the non-deductible fair value adjustment to the Trust Unit Liability, an increase in certain other non-deductible items and an increase in current tax as a result of an increase of 2% in the Alberta statutory corporate income tax rate.

Basic net earnings per common share were $1.21 in 2015 year-to-date, an increase of $1.73 compared to 2014. The increase was primarily due to the increase in adjusted net earnings available to common shareholders of the Company(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 shares issued to George Weston Limited ("Weston") in relation to the acquisition.

Revenue

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015** **(16 weeks)**	2014(3) (16 weeks)	$ Change	% Change	**2015** **(40 weeks)**	2014(3) (40 weeks)	$ Change	% Change
Retail	**$ 13,715**	$ 13,375	$ 340	2.5%	**$ 33,863**	$ 30,567	$ 3,296	10.8%
Financial Services	**211**	207	4	1.9%	**609**	579	30	5.2%
Choice Properties	**187**	171	16	9.4%	**552**	508	44	8.7%
Consolidation and Eliminations	**(167)**	(154)	(13)		**(495)**	(456)	(39)	
Revenue	**$ 13,946**	$ 13,599	$ 347	2.6%	**$ 34,529**	$ 31,198	$ 3,331	10.7%

Revenue was $13,946 million in the third quarter of 2015, an increase of $347 million compared to the third quarter of 2014, primarily driven by a $340 million increase in the Retail segment. Year-to-date revenue was $34,529 million, an increase of $3,331 million compared to the same period in 2014, primarily driven by a $3,296 million increase in the Retail segment including the contribution from Shoppers Drug Mart of $2,596 million in the first quarter of 2015.

Adjusted EBITDA(2)

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)	2015 (16 weeks)	2014 (16 weeks)	$ Change	% Change	2015 (40 weeks)	2014 (40 weeks)	$ Change	% Change
Retail	**$ 976**	$ 954	$ 22	2.3 %	**$ 2,529**	$ 2,143	$ 386	18.0%
Financial Services	**39**	42	(3)	(7.1)%	**122**	120	2	1.7%
Choice Properties	**136**	107	29	27.1 %	**378**	348	30	8.6%
Consolidation and Eliminations	**(129)**	(102)	(27)		**(361)**	(334)	(27)	
Adjusted EBITDA(2)	**$ 1,022**	$ 1,001	$ 21	2.1 %	**$ 2,668**	$ 2,277	$ 391	17.2%

Adjusted EBITDA(2) in the third quarter of 2015 was $1,022 million, an increase of $21 million compared to the same period in 2014. The Company's third quarter year-over-year increase in adjusted EBITDA(2) was positively impacted by an increase of $22 million in Retail, primarily driven by an increase in Retail gross profit, partially offset by an increase in Retail selling, general and administrative expenses ("SG&A"). Adjusted EBITDA(2) was positively impacted by net synergies of $76 million (2014 – $44 million).

Year-to-date adjusted EBITDA(2) was $2,668 million, an increase of $391 million compared to the same period in 2014, driven by an improvement in underlying operating performance of the Retail segment, including the contribution from Shoppers Drug Mart results in 2015. Adjusted EBITDA(2) was positively impacted by net synergies of $173 million (2014 – $52 million).

Depreciation and Amortization Depreciation and amortization were $477 million in the third quarter of 2015, a decrease of $23 million compared to the third quarter of 2014, and included $164 million (2014 – $168 million) in amortization of intangible assets related to the acquisition of Shoppers Drug Mart. Excluding this amount, depreciation and amortization decreased by $19 million, driven by:

- an increase in the estimated useful life of certain IT systems; and
- lower depreciation on older IT and supply chain assets in the Retail segment.

Year-to-date depreciation and amortization were $1,216 million in 2015, an increase of $137 million compared to the same period in 2014, primarily driven by the Retail segment. The increase in year-to-date depreciation and amortization included the unfavourable year-over-year increase in amortization of intangible assets of $119 million related to the acquisition of Shoppers Drug Mart. Excluding this impact, depreciation and amortization increased by $18 million, driven by the Retail segment, as a result of the contribution of Shoppers Drug Mart in the first quarter of 2015, partially offset by decreases in depreciation and amortization resulting from the factors noted above.

Net Interest Expense and Other Financing Charges

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars)	2015 (16 weeks)	2014 (16 weeks)	2015 (40 weeks)	2014 (40 weeks)
Net interest expense and other financing charges	**$ 205**	$ 150	**$ 503**	$ 415
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**(49)**	23	**(74)**	3
Accelerated amortization of deferred financing costs	**(4)**	(4)	**(15)**	(18)
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	—	**—**	(15)
Adjusted net interest expense and other financing charges(2)	**$ 152**	$ 169	**$ 414**	$ 385

Net interest expense and other financing charges were $205 million in the third quarter of 2015, an increase of $55 million compared to the third quarter of 2014. Adjusted net interest expense and other financing charges(2) of $152 million were $17 million lower compared to the third quarter of 2014, primarily driven by:

- a reduction in interest expense due to a repayment of a portion of the Acquisition Term Loan; and
- the repayment of capital securities that matured in the third quarter of 2015.

Year-to-date net interest expense and other financing charges were $503 million, an increase of $88 million compared to the same period in 2014. Year-to-date adjusted net interest expense and other financing charges(2) of $414 million in 2015 were $29 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; partially offset by
- lower interest expense on the Acquisition Term Loan due to a decline in the principal amount owing;
- lower interest expense due to the repayment of medium term notes ("MTN") in 2014; and
- lower interest expense due to the repayment of capital securities that matured in the third quarter of 2015.

Income Taxes

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015** **(16 weeks)**	2014(3) (16 weeks)	**2015** **(40 weeks)**	2014(3) (40 weeks)
Income taxes	**$ 89**	$ 43	**$ 286**	$ (66)
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes(2)	**62**	86	**144**	351
Provincial statutory corporate income tax rate change	**—**	—	**(38)**	—
Adjusted income taxes	**$ 151**	$ 129	**$ 392**	$ 285
Effective tax rate	**35.2%**	23.2%	**36.6%**	25.4%
Adjusted income tax rate(2)	**27.1%**	25.8%	**27.0%**	25.8%

The effective tax rate in the third quarter of 2015 was 35.2% compared to 23.2% for the third quarter of 2014. The increase in the effective tax rate was primarily attributable to:

- the non-deductible fair value adjustment to the Trust Unit Liability;
- an increase in certain other non-deductible items; and
- an increase in current tax as a result of an increase in the Alberta statutory corporate income tax rate described below.

The adjusted income tax rate(2) for the third quarter of 2015 was 27.1% compared to 25.8% for the third quarter of 2014. The increase in the adjusted income tax rate(2) was primarily attributable to the increase in current tax as a result of an increase in the Alberta statutory corporate income tax rate.

In the second quarter of 2015, the Government of Alberta announced a 2% increase in the provincial statutory corporate income tax rate from 10.0% to 12.0%. 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 effective tax rate year to date was 36.6% compared to 25.4% for the same period in 2014. The increase in the year-to-date effective tax rate was primarily attributable to:

- the increase in the deferred tax expense resulting from the increase in the Alberta statutory corporate income tax rate described above;
- the non-deductible fair value adjustment to the Trust Unit Liability; and
- an increase in certain other non-deductible items.

The adjusted income tax rate(2) year-to-date was 27.0% compared to 25.8% for the same period in 2014. The increase in the adjusted income tax rate(2) was primarily attributable to the increase in the current tax resulting from the increase in the Alberta statutory corporate income tax rate.

During the second quarter of 2015, the Company was reassessed by the Canada Revenue Agency ("CRA") and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited ("Glenhuron"), a wholly owned Barbadian subsidiary, should be treated, and taxed, as income in Canada. The reassessments were 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.

4. Reportable Operating Segments Results of Operations

4.1 Retail Segment

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015 (16 weeks)**	2014[3] (16 weeks)	$ Change	% Change	**2015 (40 weeks)**	2014[3] (40 weeks)	$ Change	% Change
Sales	**$ 13,715**	$ 13,375	$ 340	2.5 %	**$ 33,863**	$ 30,567	$ 3,296	10.8%
Gross profit	**3,560**	3,366	194	5.8 %	**8,895**	6,809	2,086	30.6%
Adjusted gross profit[2]	**3,560**	3,473	87	2.5 %	**8,903**	7,728	1,175	15.2%
Adjusted gross profit %[2]	**26.0%**	26.0%			**26.3%**	25.3%		
Adjusted EBITDA[2]	**$ 976**	$ 954	22	2.3 %	**$ 2,529**	$ 2,143	386	18.0%
Adjusted EBITDA margin[2]	**7.1%**	7.1%			**7.5%**	7.0%		
Depreciation and amortization	**$ 470**	$ 496	(26)	(5.2)%	**$ 1,198**	$ 1,065	133	12.5%

For the periods ended October 10, 2015 and October 4, 2014	**2015 (16 weeks)**	2014[3] (16 weeks)	**2015 (40 weeks)**	2014[3] (40 weeks)
Food retail same-store sales growth	**1.3%**	2.6%	**1.7%**	1.9%
Drug retail same-store sales growth	**4.9%**	2.5%	**4.0%**	2.1%
Same-store pharmacy sales growth	**3.5%**	3.5%	**3.6%**	2.3%
Same-store front store sales growth	**6.2%**	1.6%	**4.4%**	2.0%

Sales Retail segment sales were $13,715 million in the third quarter of 2015, an increase of $340 million compared to the third quarter of 2014. Food retail (Loblaw) sales of $10,178 million were higher by $190 million, or 1.9%, compared to the third quarter of 2014. Drug retail (Shoppers Drug Mart) sales of $3,537 million were higher by $150 million, or 4.4%. The increase in Retail segment sales was primarily due to the following factors:

- Food retail same-store sales growth was 3.1% for the quarter, after excluding gas bar (0.9%) 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 1.3% (2014 – 2.6%).
    - 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 3.8% (2014 – 2.8%) 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 sales were comprised of pharmacy sales of $1,699 million (2014 – $1,640 million) and front store sales of $1,838 million (2014 – $1,747 million).
  - Drug retail same-store sales growth for the quarter was 4.9% (2014 – 2.5%);
  - Same-store pharmacy sales growth was 3.5% (2014 – 3.5%);
    - the number of prescriptions dispensed increased by 4.2% (2014 – 4.6%). On a same-store basis, the number of prescriptions dispensed increased by 4.4% (2014 – 4.4%) and year-over-year, the average prescription value decreased by 0.2% (2014 – 0.5%);
    - generic molecules comprised 64.7% of the prescriptions dispensed in 2015 compared to 63.1% in 2014; and
  - Same-store front store sales growth was 6.2% (2014 – 1.6%).
- 47 food and drug stores were opened and 47 food and drug stores were closed in the 12 months ended October 10, 2015, including 14 drug stores divested pursuant to a Consent Agreement with the Competition Bureau related to the acquisition of Shoppers Drug Mart, resulting in an increase in Retail net square footage of 0.1 million, or 0.1%. Excluding the divestitures required pursuant to the Consent Agreement, Retail net square footage increased by 0.3 million square feet, or 0.4%.
- In 2014, the Company modified its fee arrangements with the franchisees of certain franchise banners. The modified 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 SG&A. In the third quarter of 2015, the impact of the modified arrangements was a $43 million negative impact to Food retail sales and gross profit, with an offsetting $43 million positive impact to SG&A.

On a year-to-date basis, retail sales were $33,863 million, an increase of $3,296 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 $25,041 million were higher by $470 million, or 1.9%, including the negative impact of $109 million related to the above noted franchise fee arrangement modifications. Drug retail sales of $8,822 million were higher by $2,826 million, or 47.1%. Year-to-date Food retail same-store sales growth was 3.6% after excluding gas bar (1.0%) and the negative impact of a change in distribution model by a tobacco supplier (0.9%). Including these impacts, year-to-date Food retail same-store sales growth was 1.7% (2014 – 1.9%). Year-to-date Drug retail same-store sales growth was 4.0%, driven by same-store pharmacy sales growth of 3.6% and same-store front store sales growth of 4.4%.

Adjusted Gross Profit(2) Adjusted gross profit(2) of $3,560 million was $87 million higher compared to the third quarter of 2014. Adjusted gross profit percentage(2) was flat compared to the third quarter of 2014 but included a 30 basis point negative impact from the above noted modifications to certain franchise fee arrangements. After excluding this negative impact, adjusted gross profit percentage(2) was 26.3% compared to 26.0% in the third quarter of 2014. The increase of 30 basis points was driven by an increase in Food retail adjusted gross profit percentage(2) compared to the third quarter of 2014, partially offset by a decrease in the Drug retail adjusted gross profit percentage(2) compared to the third quarter of 2014. The key drivers of the increase were:

- a positive impact due to the consolidation of franchises, which commenced in the second quarter;
- the achievement of operational synergies in both Food and Drug retail;
- a decrease in transportation costs; and
- stronger Drug retail front store gross profit percentage driven by strong sales growth in all front store categories, combined with a continued focus on promotional effectiveness and margin enhancement initiatives; partially offset by
- lower Drug retail pharmacy gross profit percentage, as higher script volumes were offset by the impact of healthcare reform and the increase in the usage of generic molecules.

Year-to-date adjusted gross profit(2) was $8,903 million, an increase of $1,175 million compared to the same period in 2014 and adjusted gross profit percentage(2) was 26.3% compared to 25.3% 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 the modifications to certain franchise fee arrangements noted above. Excluding these two impacts, adjusted gross profit percentage(2) was 25.5% compared to 25.3% in the same period in 2014. The increase was primarily driven by the achievement of operational synergies and positive impacts from the consolidation of franchises.

Adjusted EBITDA(2) Adjusted EBITDA(2) of $976 million was $22 million higher compared to the third quarter of 2014, driven by the increase in adjusted gross profit(2) described above, partially offset by an increase in SG&A of $65 million. As a percentage of sales, the increase in SG&A was positively impacted by the modification to certain franchise fee arrangements, which was fully offset in gross profit above. Excluding this impact, SG&A increased by $108 million, an increase of 30 basis points over 2014. The increase in SG&A included the impact of the following:

- higher store and store support costs, primarily driven by higher sales and investments in marketing and business initiatives;
- unfavourable foreign exchange impacts;
- the inclusion of the SG&A of consolidated franchises as described below; and
- higher charges related to settlement of collective agreements in the quarter; partially offset by
- favourable changes in the value of the Company's investments in its franchise business; and
- efficiencies achieved in the Food retail supply chain, administration and IT.

Year-to-date adjusted EBITDA(2) of $2,529 million was $386 million higher compared to the same period in 2014, primarily driven by the increase in year-to-date adjusted gross profit(2) described above, partially offset by a year-to-date increase in SG&A of $789 million. The increase in SG&A was impacted by:

- the contribution of Shoppers Drug Mart in the first quarter of 2015; and
- the positive impact of the modifications to certain franchise fee arrangements.

Excluding these impacts, SG&A increased by $144 million over the prior year, which was flat to prior year as a percentage of sales. The increase in SG&A included the impact of the following:

- higher store and store support costs, primarily driven by higher sales volumes;
- the inclusion of the SG&A of consolidated franchises as described below; and
- unfavourable foreign exchange impacts; partially offset by
- positive changes in the value of the Company's investments in its franchise business; and
- efficiencies achieved in Food retail supply chain, administration and IT.

Depreciation and Amortization Depreciation and amortization were $470 million in the third quarter of 2015, a decrease of $26 million compared to the third quarter of 2014, and included $164 million (2014 – $168 million) in amortization of intangible assets related to the acquisition of Shoppers Drug Mart. Excluding this amount, depreciation and amortization decreased by $22 million driven by:

- an increase in the estimated useful life of certain IT systems; and
- lower depreciation on older IT and supply chain assets.

On a year-to-date basis, depreciation and amortization were $1,198 million, an increase of $133 million compared to the same period in 2014 and included $412 million (2014 – $293 million) in amortization of intangible assets related to the acquisition of Shoppers Drug Mart. Excluding this amount, depreciation and amortization increased by $14 million driven by:

- the contribution of Shoppers Drug Mart in the first quarter of 2015 of $60 million; partially offset by
- the factors noted above.

Other Retail Business Matters

Consolidation of Franchises In 2015, the Company implemented a new, simplified franchise agreement ("Franchise Agreement") for its franchised Food retail stores. For financial reporting purposes, the franchise stores subject to the Franchise Agreement were consolidated. All new franchises will be subject to the Franchise Agreement. Existing franchises will be converted to the Franchise Agreement as the existing agreements expire. As at October 10, 2015, 43 franchises were consolidated and the year-to-date impact was incremental revenue of $28 million, a decrease to EBITDA(2) of $8 million, an increase in depreciation and amortization of $2 million, and a decrease to net earnings of $10 million, of which $5 million was attributable to franchisees. The remaining $5 million decrease in net earnings was driven by the additional deferral of vendor income associated with consolidated franchise inventories.

Closure of Certain Unprofitable Retail Locations As announced in the 2015 Second Quarter Report to Shareholders, the Company finalized a 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 be completed by the end of the second quarter of 2016. On an annualized basis, the closures will decrease sales by approximately $300 million but will result in a favourable impact of approximately $30 million to EBITDA(2) and $5 million to depreciation and amortization.

The restructuring and other related costs associated with the plan are expected to total approximately $140 million. Of this amount, a charge of $86 million was recorded in the third quarter of 2015 and $131 million year-to-date. The year-to-date amount included $92 million for severance and lease termination costs and $39 million for asset impairments associated with these retail locations. The Company expects approximately $9 million to be recognized as stores close.

As at the end of the third quarter of 2015, 13 retail locations had been closed.

Labour Agreements Over the past five years, the Company has been transitioning stores to more cost effective and efficient operating terms under collective agreements ("Labour Agreements"). The Company is committed to completing these Labour Agreements and expects to finalize the majority of the remaining stores in the fourth quarter of 2015. The Company anticipates it will incur a charge of approximately $60 million in SG&A related to the completion of these Labour Agreements in the fourth quarter of 2015, which will be excluded in calculating adjusted net earnings available to common shareholders of the Company(2).

4.2 Financial Services Segment(4)

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015 (16 weeks)**	2014 (16 weeks)	$ Change	% Change	**2015 (40 weeks)**	2014 (40 weeks)	$ Change	% Change
Revenue	**$ 211**	$ 207	$ 4	1.9 %	**$ 609**	$ 579	$ 30	5.2 %
Adjusted EBITDA(2)	**39**	42	(3)	(7.1)%	**122**	120	2	1.7 %
Earnings before income taxes	**23**	27	(4)	(14.8)%	**73**	76	(3)	(3.9)%

(millions of Canadian dollars except where otherwise indicated)	**As at October 10, 2015**	As at October 4, 2014	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,604**	$ 2,512	$ 92	3.7%
Credit card receivables	**2,663**	2,549	114	4.5%
Allowance for credit card receivables	**51**	51	—	—%
Annualized yield on average quarterly gross credit card receivables	**13.6%**	13.8%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.4%**	4.4%		

Revenue Revenue was $211 million in the third quarter of 2015, an increase of $4 million, or 1.9%, compared to the third quarter of 2014. The increase was primarily driven by:

- higher interest income attributable to growth in credit card receivables; partially offset by
- more moderate growth than the corresponding increase in credit card receivables due to an industry-wide reduction in interchange rates by MasterCard® International Incorporated ("MasterCard®").

Year-to-date revenue was $609 million, an increase of $30 million, or 5.2%, compared to the same period in 2014, primarily driven by:

- the factors described above; and
- an increase in *PC* Telecom revenue from higher Mobile Shop sales.

Adjusted EBITDA(2) Adjusted EBITDA(2) was $39 million in the third quarter of 2015, a decrease of $3 million compared to the third quarter of 2014. The decrease in adjusted EBITDA(2) was primarily driven by:

- higher operating costs as a result of an increase in the active customer base and the depreciation of the Canadian dollar; and
- more moderate revenue growth as described above; partially offset by
- lower customer acquisition expenses.

Year-to-date adjusted EBITDA(2) was $122 million, an increase of $2 million, or 1.7%, compared to the same period in 2014. The increase in adjusted EBITDA(2) was primarily driven by:

- revenue growth as described above; and
- lower credit card losses; partially offset by
- higher operating costs as a result of an increase in the active customer base and the depreciation of the Canadian dollar.

Earnings before income taxes Earnings before income taxes were $23 million in the third quarter of 2015, a decrease of $4 million compared to the third quarter of 2014. The decrease was primarily driven by higher interest income attributable to growth in credit card receivables, offset by higher operating costs resulting from an increase in the active customer base and higher interest expenses to fund the growth in credit card receivables.

Year-to-date earnings before income taxes were $73 million, a decrease of $3 million compared to the same period in 2014. The decrease was driven by higher IT investments, partially offset by higher EBITDA described above.

Credit Card Receivables As at October 10, 2015, credit card receivables were $2,663 million, an increase of $114 million compared to October 4, 2014. This increase was primarily driven by a growth in the active customer base as a result of continued investments in customer acquisitions and marketing initiatives, partially offset by higher customer payment rates. As at October 10, 2015, the allowance for credit card receivables was $51 million, flat compared to October 4, 2014.

4.3 Choice Properties Segment(4)

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015 (16 weeks)**	2014 (16 weeks)	$ Change	% Change	**2015 (40 weeks)**	2014 (40 weeks)	$ Change	% Change
Revenue	**$ 187**	$ 171	$ 16	9.4%	**$ 552**	$ 508	$ 44	8.7%
Adjusted EBITDA(2)	**136**	107	29	27.1%	**378**	348	30	8.6%
Net interest expense and other financing charges	**308**	(18)	326	1,811.1%	**572**	232	340	146.6%
Adjusted funds from operations(2)	**79**	73	6	8.2%	**231**	211	20	9.5%

Revenue Revenue was $187 million in the third quarter of 2015, an increase of $16 million, compared to the third quarter of 2014, and included $167 million (2014 – $154 million) generated from tenants within the Retail segment.

Year-to-date revenue was $552 million, an increase of $44 million compared to the same period in 2014 and included $495 million (2014 – $456 million) generated from tenants within the Retail segment.

The increase in revenue in the third quarter of 2015 and year-to-date was primarily driven by:

- revenue from properties acquired subsequent to the third quarter of 2014; and
- an increase in base rent from existing properties.

Adjusted EBITDA(2) Adjusted EBITDA(2) was $136 million in the third quarter of 2015, an increase of $29 million compared to the third quarter of 2014, primarily driven by:

- contributions from properties acquired subsequent to the third quarter of 2014; and
- a favourable fair value adjustment on investment properties.

Year-to-date adjusted EBITDA(2) was $378 million, an increase of $30 million compared to the same period in 2014, primarily driven by contributions from acquired properties.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $308 million in the third quarter of 2015, an increase of $326 million compared to the third quarter of 2014. The increase was primarily driven by the fair value adjustment on Class B Limited Partnership units.

Year-to-date net interest expense and other financing charges were $572 million, an increase of $340 million compared to the same period in 2014, primarily driven by:

- the fair value adjustment on Class B Limited Partnership units; and
- 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 $79 million in the third quarter of 2015, an increase of $6 million compared to the third quarter of 2014.

Year-to-date adjusted funds from operations(2) were $231 million, an increase of $20 million compared to the same period in 2014.

The increase in adjusted funds from operations(2) in the third quarter of 2015 and year-to-date was primarily driven by:

- higher contribution from property operations; partially offset by
- an increase in normalized sustaining property and leasing capital expenditures, resulting from a larger investment property portfolio.

Other Matters In the third quarter of 2015, Choice Properties acquired two properties from the Company for a purchase price of approximately $18 million, excluding acquisition costs, for consideration of $15 million in cash and issuance of 280,155 Class B Limited Partnership units. Year-to-date, Choice Properties acquired 42 properties from the Company for a purchase price of approximately $312 million, excluding acquisition costs, for consideration of $205 million in cash and issuance of 9,782,986 Class B Limited Partnership units.

Subsequent to the end of the third quarter of 2015, Choice Properties announced an increase in its annual distribution per unit of 3.1% to $0.67 per unit, effective for unitholders of record on January 29, 2016 and filed a Short Form Base Shelf Prospectus allowing for the issuance of up to $2,000 million of Units and debt securities, or any combination thereof over a 25-month period.

5. Liquidity and Capital Resources

5.1 Cash Flows

Major Cash Flow Components

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015** **(16 weeks)**	2014(3) (16 weeks)	$ Change	% Change	**2015** **(40 weeks)**	2014(3) (40 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 1,285**	$ 1,179	$ 106	9.0 %	**$ 999**	2,260	(1,261)	(55.8)%
Cash flows from (used in):								
Operating activities	**1,068**	704	364	51.7 %	**2,515**	1,617	898	55.5 %
Investing activities	**(553)**	(189)	(364)	(192.6)%	**(1,065)**	(5,321)	4,256	80.0 %
Financing activities	**(530)**	(716)	186	26.0 %	**(1,184)**	2,420	(3,604)	(148.9)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	**5**	2	3	150.0 %	**10**	4	6	150.0 %
Cash and cash equivalents, end of period	**$ 1,275**	$ 980	$ 295	30.1 %	**$ 1,275**	$ 980	$ 295	30.1 %

Cash Flows from Operating Activities Cash flows from operating activities were $1,068 million in the third quarter of 2015 compared to $704 million in the third quarter of 2014. The increase was primarily due to a positive change in non-cash working capital driven primarily by a reduction in inventory. Cash flows from operating activities were $2,515 million year-to-date compared to $1,617 million in 2014 primarily due to a positive change in non-cash working capital and higher cash earnings.

Cash Flows used in Investing Activities Cash flows used in investing activities were $553 million in the third quarter of 2015 compared to $189 million in third quarter of 2014. The increase was primarily due to an increase in security deposits to fund the repayment of *Eagle Credit Card Trust® ("Eagle")* notes maturing in the fourth quarter of 2015 and higher net capital investments. On a year-to-date basis, cash flows used in investing activities were $1,065 million compared to $5,321 million in the same period in 2014. The decrease was primarily due to cash used in the acquisition of Shoppers Drug Mart in the second quarter of 2014, partially offset by a reduction in security deposits used to fund the acquisition in 2014 and higher capital investments.

Capital Investments and Store Activity

As at or for the periods ended October 10, 2015 and October 4, 2014	**2015 (40 weeks)**	2014 (40 weeks)	% Change
Capital investments[3] (millions of Canadian dollars)	**$ 808**	$ 686	17.8 %
Corporate square footage (in millions)	**36.5**	36.9	(1.1)%
Franchise square footage (in millions)	**15.7**	15.3	2.6 %
Associate-owned drug store square footage (in millions)	**17.8**	17.7	0.6 %
Total retail square footage (in millions)	**70.0**	69.9	0.1 %
Number of corporate stores	**604**	617	(2.1)%
Number of franchise stores	**529**	515	2.7 %
Number of Associate-owned drug stores	**1,307**	1,308	(0.1)%
Total number of stores	**2,440**	2,440	— %
Percentage of corporate real estate owned	**72%**	72%	
Percentage of franchise real estate owned	**46%**	45%	
Percentage of Associate-owned drug store real estate owned	**2%**	2%	
Average store size (square feet)			
Corporate	**60,400**	59,800	1.0 %
Franchise	**29,700**	29,700	— %
Associate-owned drug store	**13,600**	13,500	0.7 %

Cash Flows (used in) from Financing Activities Cash flows used in financing activities were $530 million in the third quarter of 2015 compared to $716 million in third quarter of 2014. On a year-to-date basis, cash flows used in financing activities were $1,184 million compared to cash flows from financing activities of $2,420 million in the same period in 2014. Cash flows used in financing activities in 2015 were primarily driven by net retirement of long term debt, interest and dividend payments. Cash flows from financing activities in 2014 were primarily driven by net issuances of long term debt and proceeds from the issuance of common shares to fund the acquisition of Shoppers Drug Mart. These cash inflows were partially offset by interest and dividend payments, which include one quarter of Shoppers Drug Mart dividends that were declared prior to the closing of the acquisition and paid during the second quarter of 2014.

In the third quarter of 2015, significant long term debt transactions included:

- repayments on the Acquisition Term Loan of $312 million; and
- issuance of $250 million senior and subordinated term notes by *Eagle.*

In the third quarter of 2014, the Company repaid $350 million of the Acquisition Term Loan.

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

- net repayments on unsecured term loan facilities of $931 million;
- issuance of $250 million aggregate principal amount of senior unsecured debentures by Choice Properties; and
- issuance of $250 million senior and subordinated term notes by *Eagle.*

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

- borrowings on the Acquisition Term Loan of $3,500 million and repayments of $1,950 million;
- the issuance of $1,500 million of replacement notes related to the Choice Properties Transferor Notes;
- the issuance of $450 million aggregate principal amount of senior unsecured debentures by Choice Properties;
- the repayment of the Company's $450 million of the Company's MTN's upon maturity; and
- the repayment of the outstanding $478 million balance of the Shoppers Drug Mart revolving bank credit facility.

Free Cash Flow[(2)]

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)	**2015 (16 weeks)**	2014[(3)] (16 weeks)	$ Change	% Change	**2015 (40 weeks)**	2014[(3)] (40 weeks)	$ Change	% Change
Free cash flow[(2)]	**$ 578**	$ 198	$ 380	191.9%	**$ 1,311**	$ 538	$ 773	143.7%

In the third quarter of 2015, free cash flow[(2)] was $578 million compared to $198 million in the third quarter of 2014. The increase was primarily driven by the increase in cash flows from operating activities and lower interest payments, partially offset by higher net capital investments. On a year-to-date basis, free cash flow[(2)] was $1,311 million compared to $538 million in the same period in 2014. The increase was primarily driven by higher cash flows from operating activities, partially offset by higher net capital investments.

5.2 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 and financial obligations. 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 October 10, 2015 and throughout 2015, the Company and Choice Properties were in compliance with these covenants.

Adjusted Debt[(2)] During 2015, adjusted debt[(2)] decreased by $807 million, primarily driven by net repayments on unsecured term loan facilities and the repayment of capital securities, partially offset by the issuance of Choice Properties' $250 million senior unsecured debentures and increases in other indebtedness.

On closing of the acquisition of Shoppers Drug Mart, adjusted debt[(2)] was $11,060 million. The Company has decreased adjusted debt[(2)] by $1,872 million since the closing of the acquisition, resulting in an outstanding adjusted debt[(2)] balance of $9,188 million as at October 10, 2015. The reduction in adjusted debt[(2)] since closing included the net repayments on the Company's unsecured term loan facilities, the repayment of capital securities and the repayment of a $350 million MTN, partially offset by the issuance of Choice Properties' $250 million senior unsecured debentures and increases in other indebtedness.

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

	As at October 10, 2015	As at October 4, 2014[(3)]	As at January 3, 2015[(3)]
Adjusted debt[(2)] to rolling year adjusted EBITDA[(2)]	**2.5x**	3.8x	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 October 4, 2014 primarily 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. As a result of the debt reduction progress, the Company has achieved its deleveraging target as of the third quarter. The Company will now increase its focus on a balanced shareholder return program by continuing to grow the common dividend and returning capital to shareholders by repurchasing shares under our Normal Course Issuer Bid ("NCIB").

Unsecured Term Loan Facilities In connection with the financing of the acquisition of Shoppers Drug Mart, the Company obtained a $3,500 million Acquisition Term Loan. As at October 10, 2015, the outstanding balance on the Acquisition Term Loan was $48 million (October 4, 2014 – $1,550 million, January 3, 2015 – $1,229 million). During the third quarter of 2015 and year-to-date, the Company repaid $312 million and $1,181 million of the Acquisition Term Loan, respectively. Since the acquisition, the Company has repaid $3,452 million of the 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.

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.

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 October 10, 2015, October 4, 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 October 10, 2015, Choice Properties had drawn $133 million (October 4, 2014 – $77 million; January 3, 2015 – $122 million) under its $500 million senior unsecured committed credit facility. In the third quarter of 2015, Choice Properties amended its credit facility agreement to extend the maturity date to July 5, 2020, with all other terms and conditions remaining substantially the same.

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 third 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".

5.3 Financial Condition

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

	As at October 10, 2015	As at October 4, 2014(3)	As at January 3, 2015(3)
Rolling year adjusted return on equity(2)	**11.4%**	10.1%	12.3%
Rolling year adjusted return on capital(2)	**8.6%**	8.5%	10.4%

The rolling year adjusted return on equity(2) and the rolling year adjusted return on capital(2) as at October 10, 2015 increased compared to October 4, 2014, primarily due to the full year contribution of Shoppers Drug Mart, partially offset by the post-acquisition increase in capital being fully reflected. The rolling year adjusted return on equity(2) and the rolling year adjusted return on capital(2) as at October 10, 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.

5.4 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. In the third quarter of 2015, Standard & Poor's reaffirmed Choice Properties' credit ratings and outlook.

5.5 Other Sources of Funding

Independent Securitization Trusts The Company, through PC Bank, participates in various securitization programs that provide 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* 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 October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust*®	**$ 1,000**	$ 750	$ 750
Securitized to Other Independent Securitization Trusts	**580**	605	605
Total securitized to independent securitization trusts	**$ 1,580**	$ 1,355	$ 1,355

In the third quarter of 2015, *Eagle* issued $250 million senior and subordinated term notes with a weighted average interest rate of 2.23%, maturing on September 17, 2020. The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables.

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.

During 2015, PC Bank recorded a $25 million net reduction of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts. As at October 10, 2015, the corresponding short term debt was $580 million. Subsequent to the end of the quarter, PC Bank reduced $50 million of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts.

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 October 10, 2015 and throughout 2015.

On December 17, 2015, the five-year $350 million senior and subordinated term notes issued by *Eagle* will mature. As a result, the Company accumulated $190 million of cash as at October 10, 2015, which was held by the Company as security deposits. The Company expects to accumulate the remaining $160 million prior to the maturity of these notes.

5.6 Share Capital

Second Preferred Share Capital (authorized – unlimited) In the third quarter of 2015, the Company redeemed all of the outstanding 9.0 million 5.95% non-voting Second Preferred Shares, Series A, for a face value of $225 million and recorded a corresponding decrease to capital securities, which were classified as other financial liabilities. The redemption was funded primarily through the proceeds received from the issuances of the Second Preferred Shares, Series B.

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 October 10, 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:

	October 10, 2015 (16 weeks)		October 4, 2014 (16 weeks)		**October 10, 2015 (40 weeks)**		October 4, 2014 (40 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**412,386,285**	**$ 7,878**	412,743,370	$ 7,821	**412,480,891**	**$ 7,860**	282,311,573	$ 1,648
Issued for settlement of stock options	**565,499**	**24**	1,303,873	56	**1,341,381**	**59**	3,012,941	134
Issued for acquisition of Shoppers Drug Mart	**—**	**—**	—	—	**—**	**—**	119,471,382	5,619
Issued to controlling shareholder	**—**	**—**	—	—	**—**	**—**	10,515,247	500
Purchased and cancelled	**(546,351)**	**(10)**	(1,600,300)	(30)	**(1,416,839)**	**(27)**	(2,864,200)	(54)
Issued and outstanding, end of period	**412,405,433**	**$ 7,892**	412,446,943	$ 7,847	**412,405,433**	**$ 7,892**	412,446,943	$ 7,847
Shares held in trust, beginning of period	**(789,643)**	**$ (12)**	(820,379)	$ (5)	**(555,046)**	**$ (3)**	(1,067,323)	$ (6)
Purchased for future settlement of Restricted Share Units and Performance Share Units	**(328,041)**	**(6)**	—	—	**(871,894)**	**(17)**	—	—
Release for settlement of Restricted Share Units and Performance Share Units	**42,481**	**—**	221,907	2	**351,737**	**2**	468,851	3
Shares held in trust, end of period	**(1,075,203)**	**$ (18)**	(598,472)	$ (3)	**(1,075,203)**	**$ (18)**	(598,472)	$ (3)
Issued and outstanding, net of shares held in trust, end of period	**411,330,230**	**$ 7,874**	411,848,471	$ 7,844	**411,330,230**	**$ 7,874**	411,848,471	$ 7,844
Weighted average outstanding, net of shares held in trust	**411,505,687**		412,478,762		**411,785,643**		370,316,810	

Dividends The following table summarizes the Company's cash dividends declared for 2015 and 2014:

	October 10, 2015(i) (16 weeks)	October 4, 2014 (16 weeks)	October 10, 2015 (40 weeks)	October 4, 2014 (40 weeks)
Dividends declared per share ($):				
Common share	**$ 0.250**	$ 0.245	**$ 0.745**	$ 0.730
Second Preferred Share, Series A	**$ —**	$ 0.37	**$ 0.74**	$ 1.12
Second Preferred Share, Series B	**$ 0.41**	$ —	**$ 0.41**	$ —

(i) The third quarter dividends for 2015 of $0.250 per share declared on common shares were paid on October 1, 2015. The third quarter dividends for 2015 of $0.41 per share declared on Second Preferred Shares, Series B were paid on September 30, 2015.

Subsequent to end of the third quarter of 2015, the Board declared a quarterly dividend of $0.250 per common share, payable on December 30, 2015 to shareholders of record on December 15, 2015 and a dividend on the Second Preferred Shares, Series B of $0.33 per share payable on December 31, 2015 to shareholders of record on December 15, 2015. At the time such dividends are declared, the Company identifies on its website, loblaw.ca, the designation of eligible and ineligible dividends in accordance with the administrative position of the CRA.

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

(millions of Canadian dollars except where otherwise indicated)	October 10, 2015 (16 weeks)	October 4, 2014 (16 weeks)	October 10, 2015 (40 weeks)	October 4, 2014 (40 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**546,351**	1,600,300	**1,416,839**	2,864,200
Cash consideration paid	**$ 39**	$ 90	**$ 94**	$ 149
Premium charged to Retained Earnings	**29**	60	**67**	95
Reduction in Common Share Capital	**10**	30	**27**	54
Common shares repurchased under the NCIB and held in trust (number of shares)	**328,041**	—	**871,894**	—
Cash consideration paid	**$ 22**	$ —	**$ 57**	$ —
Premium charged to Retained Earnings	**16**	—	**40**	—
Reduction in Common Share Capital	**6**	—	**17**	—

In 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.

5.7 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 2015, the gross potential liability associated with these letters of credit increased by $130 million (2014 – $22 million) to a balance of approximately $716 million as at October 10, 2015 (October 4, 2014 – $492 million).

Guarantees The Company has provided a guarantee on behalf of PC Bank to MasterCard® for accepting PC Bank as a card member and licensee of MasterCard®. During the third quarter of 2015, the Company increased its guarantee on behalf of PC Bank to MasterCard® by $20 million (2014 – nil) to USD $190 million as at October 10, 2015 (October 4, 2014 – USD $170 million).

6. Financial Instruments

Foreign Exchange Forwards During 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 third quarter of 2015 and year-to-date, PC Bank recorded an unrealized fair value gain of $1 million and $2 million, respectively, 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. In the third quarter of 2015, PC Bank settled $300 million of its bond forward agreements upon maturity and deferred a loss of $2 million in accumulated other comprehensive income to be recognized in operating income as future interest payments are made. Accordingly, during the third quarter of 2015 and year-to-date, a fair value loss of $2 million 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 October 10, 2015, the fair value of these investments of $25 million was included in other assets. During the third 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 OSFI's final Guideline on LARs, effective January 1, 2015.

7. 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)]

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2015	**2014**	2015	2014	2015	2014	2014	2013
(millions of Canadian dollars except where otherwise indicated)	**(16 weeks)**	**(16 weeks)**	(12 weeks)	(12 weeks)	(12 weeks)	(12 weeks)	(13 weeks)	(12 weeks)
Revenue	**$ 13,946**	**$ 13,599**	$ 10,535	$ 10,307	$ 10,048	$ 7,292	$ 11,413	$ 7,640
Net earnings (loss) available to common shareholders of the Company	**$ 166**	**$ 142**	$ 185	$ (456)	$ 146	$ 120	$ 247	$ 114
Net earnings (loss) per common share:								
Basic ($)	**$ 0.40**	**$ 0.34**	$ 0.45	$ (1.13)	$ 0.35	$ 0.43	$ 0.60	$ 0.41
Diluted ($)	**$ 0.40**	**$ 0.34**	$ 0.44	$ (1.13)	$ 0.35	$ 0.42	$ 0.59	$ 0.40
Average national food price inflation (as measured by CPI)	**3.8%**	**2.8%**	3.9%	2.5%	4.6%	1.2%	3.5%	0.9%
Food retail same-store sales growth	**1.3%**	**2.6%**	2.1%	1.8%	2.0%	0.9%	2.4%	0.6%
Drug retail same-store sales growth	**4.9%**	**2.5%**	3.8%	2.5%	3.1%	1.4%	3.8%	1.2%

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 18.2 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 12 "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;
- modifications to the fee arrangements with franchisees of certain franchise banners;
- the consolidation of the results of certain franchises;
- 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.

8. Internal Control over Financial Reporting

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

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures.

Changes in Internal Control over Financial Reporting There were no changes in the Company's internal control over financial reporting in the third quarter of 2015 that materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

9. 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.

During the second quarter of 2015, the Company was reassessed by the CRA and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron should be treated, and taxed, as income in Canada. The reassessments were 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 Competition 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 Competition Bureau's objectives of maintaining competitive markets, then the Competition Bureau may pursue remedies that could have a negative material impact on the Company's reputation, results of operations and financial position.

Legal Proceedings On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice against the Company and certain subsidiaries, Weston and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim 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.

10. Accounting Standards

10.1 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 October 4, 2014	As at January 3, 2015	As at December 28, 2013
Fixed Assets	$ (498)	$ (498)	$ (590)
Intangible Assets	498	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.

11. 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 [i] , 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 of approximately $235 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, despite the negative impact in the fourth quarter of healthcare reform, incremental investments in key projects, and lower incremental synergies; and
- Invest approximately $1,200 million in capital expenditures.

The Company's expectations continue to 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.

(i) Includes Shoppers Drug Mart's financial results for the first quarter of 2014 and excludes the impact of the 53rd week of $71 million in adjusted EBITDA[2] and adjusted operating income[2].

12. 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 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. The Company excludes 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.

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars)	**2015 (16 weeks)**	2014 (16 weeks)	**2015 (40 weeks)**	2014 (40 weeks)
Retail segment gross profit	**$ 3,560**	$ 3,366	**$ 8,895**	$ 6,809
Add impact of the following:				
Charge related to apparel inventory	**—**	—	**8**	—
Recognition of fair value increment on inventory sold	**—**	107	**—**	729
Charge related to inventory measurement and other conversion differences	**—**	—	**—**	190
Retail segment adjusted gross profit	**$ 3,560**	$ 3,473	**$ 8,903**	$ 7,728

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 third quarter of 2014, $107 million and year-to-date $729 million was recognized in gross profit and operating income.

Charge related to inventory measurement and other conversion differences for the Company's corporate grocery stores 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 and Adjusted EBITDA Margin The following tables reconcile earnings (loss) before income taxes, net interest expense and other financing charges and depreciation and amortization ("EBITDA"), adjusted EBITDA and adjusted operating income to operating income, which is reconciled to GAAP net earnings measures reported in the condensed consolidated statements of earnings for the periods ended October 10, 2015 and October 4, 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.

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

					2015 (16 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services[(4)]**	**Choice Properties[(4)]**	**Consolidation and Eliminations**	**Consolidated**
Net earnings attributable to shareholders of the Company					**$ 170**
Add (deduct) impact of the following:					
Non-Controlling Interests					**(6)**
Net interest expense and other financing charges					**205**
Income taxes					**89**
Operating income	**$ 419**	**$ 37**	**$ 135**	**$ (133)**	**$ 458**
Depreciation and amortization	**470**	**2**	**1**	**4**	**477**
EBITDA	**$ 889**	**$ 39**	**$ 136**	**$ (129)**	**$ 935**
Operating income	**$ 419**	**$ 37**	**$ 135**	**$ (133)**	**$ 458**
Add (deduct) impact of the following:					
Amortization of intangible assets acquired with Shoppers Drug Mart	**164**	**—**	**—**	**—**	**164**
Restructuring and other related costs	**95**	**—**	**—**	**—**	**95**
Fair value adjustment on fuel and foreign currency contracts	**(12)**	**—**	**—**	**—**	**(12)**
Fixed asset and other related impairments, net of recoveries	**2**	**—**	**—**	**—**	**2**
Pension annuities and buy-outs	**2**	**—**	**—**	**—**	**2**
Recognition of fair value increment on inventory sold	**—**	**—**	**—**	**—**	**—**
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	**—**	**—**	**—**	**—**	**—**
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	**—**	**—**	**—**	**—**
Adjusted operating income	**$ 670**	**$ 37**	**$ 135**	**$ (133)**	**$ 709**
Depreciation and amortization	**470**	**2**	**1**	**4**	**477**
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(164)**	**—**	**—**	**—**	**(164)**
Adjusted EBITDA	**$ 976**	**$ 39**	**$ 136**	**$ (129)**	**$ 1,022**

					2014[(3)] (16 weeks)
(millions of Canadian dollars)	Retail	Financial Services[(4)]	Choice Properties[(4)]	Consolidation and Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					$ 142
Add (deduct) impact of the following:					
Non-Controlling Interests					—
Net interest expense and other financing charges					150
Income taxes					43
Operating income	$ 294	$ 41	$ 105	$ (105)	$ 335
Depreciation and amortization	496	1	—	3	500
EBITDA	$ 790	$ 42	$ 105	$ (102)	$ 835
Operating income	$ 294	$ 41	$ 105	$ (105)	$ 335
Add (deduct) impact of the following:					
Amortization of intangible assets acquired with Shoppers Drug Mart	168	—	—	—	168
Restructuring and other related costs	44	—	2	—	46
Fair value adjustment on fuel and foreign currency contracts	—	—	—	—	—
Fixed asset and other related impairments, net of recoveries	10	—	—	—	10
Pension annuities and buy-outs	—	—	—	—	—
Recognition of fair value increment on inventory sold	107	—	—	—	107
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	5	—	—	—	5
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	(2)	—	—	—	(2)
Adjusted operating income	$ 626	$ 41	$ 107	$ (105)	$ 669
Depreciation and amortization	496	1	—	3	500
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(168)	—	—	—	(168)
Adjusted EBITDA	$ 954	$ 42	$ 107	$ (102)	$ 1,001

(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
					2015 (40 weeks)					2014[3] (40 weeks)
Net earnings (loss) attributable to shareholders of the Company					**$ 501**					$ (194)
Add (deduct) impact of the following:										
Non-Controlling Interests					**(5)**					—
Net interest expense and other financing charges					**503**					415
Income taxes					**286**					(66)
Operating income	**$ 1,164**	**$ 115**	**$ 377**	**$ (371)**	**$ 1,285**	$ 38	$ 115	$ 345	$ (343)	$ 155
Depreciation and amortization	**1,198**	**7**	**1**	**10**	**1,216**	1,065	5	—	9	1,079
EBITDA	**$ 2,362**	**$ 122**	**$ 378**	**$ (361)**	**$ 2,501**	$ 1,103	$ 120	$ 345	$ (334)	$ 1,234
Operating income	**$ 1,164**	**$ 115**	**$ 377**	**$ (371)**	**$ 1,285**	$ 38	$ 115	$ 345	$ (343)	$ 155
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**412**	**—**	**—**	**—**	**412**	293	—	—	—	293
Restructuring and other related costs	**161**	**—**	**—**	**—**	**161**	44	—	2	—	46
Charge related to apparel inventory	**8**	**—**	**—**	**—**	**8**	—	—	—	—	—
Fixed asset and other related impairments, net of recoveries	**9**	**—**	**—**	**—**	**9**	14	—	1	—	15
Fair value adjustment on fuel and foreign currency contracts	**(15)**	**—**	**—**	**—**	**(15)**	—	—	—	—	—
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**2**	**—**	**—**	**—**	**2**	58	—	—	—	58
Pension annuities and buy-outs	**2**	**—**	**—**	**—**	**2**	—	—	—	—	—
Recognition of fair value increment on inventory sold	**—**	**—**	**—**	**—**	**—**	729	—	—	—	729
Charge related to inventory measurement and other conversion differences	**—**	**—**	**—**	**—**	**—**	190	—	—	—	190
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	**—**	**—**	**—**	**—**	**—**	5	—	—	—	5
Adjusted operating income	**$ 1,743**	**$ 115**	**$ 377**	**$ (371)**	**$ 1,864**	$ 1,371	$ 115	$ 348	$ (343)	$ 1,491
Depreciation and amortization	**1,198**	**7**	**1**	**10**	**1,216**	1,065	5	—	9	1,079
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(412)**	**—**	**—**	**—**	**(412)**	(293)	—	—	—	(293)
Adjusted EBITDA	**$ 2,529**	**$ 122**	**$ 378**	**$ (361)**	**$ 2,668**	$ 2,143	$ 120	$ 348	$ (334)	$ 2,277

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 third quarter of 2015, $164 million (2014 – $168 million) and year-to-date of $412 million (2014 – $293 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 third quarter of 2015, the Company recorded restructuring and other related charges of $95 million (2014 – $46 million). Of this amount, $86 million related to a store closure plan to close 52 unprofitable retail locations across a range of banners and formats, which included $62 million for severance and lease termination costs and $24 million for asset impairments associated with these retail locations. The additional $9 million of restructuring charges were primarily related to corporate and store support restructuring activities. The year-to-date charge of $161 million (2014 – $46 million) included $131 million from the restructuring of retail locations as noted above in the second quarter of 2015, of which $92 million was for severance and lease termination costs and $39 million was for asset impairments. The remaining $30 million of restructuring charges were related to store support restructuring activities in the Joe Fresh and Shoppers Home Health Care businesses that were incurred in the first quarter of 2015.

Fixed asset and other related impairments, net of recoveries At each balance sheet date, the Company assesses and, when required, records impairments and recoveries of previous impairments related to the carrying value of its fixed assets, investment properties and intangible assets. In the third quarter of 2015, the Company recorded $2 million (2014 – $10 million) and year-to-date $9 million (2014 – $15 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 third quarter of 2015, the Company recorded a net fair value gain on fuel and foreign currency contracts of $12 million (2014 – nil) and a year-to-date gain of $15 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, net of impact from divestitures 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 third quarter of 2015 (2014 – gain of $2 million). In 2014, the Company incurred acquisition costs of $60 million year-to-date related to the agreement to acquire all of the outstanding common shares of Shoppers Drug Mart.

Pension annuities and buy-outs In the third quarter of 2015, the Company completed several annuity purchases and pension buy-outs in respect of former employees designed to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks resulting in a charge of $2 million.

Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability In the second quarter of 2014, in conjunction with the acquisition, the Company converted certain Shoppers Drug Mart cash-settled equity-based compensation awards to cash-settled awards based on the Company's common shares. The Company is exposed to market price fluctuations in its common share price as these awards are settled in cash and the associated liability is recorded at fair value at each reporting date based on the market price of the Company's common share. In the third quarter and year-to-date 2014, the Company recorded a loss of $5 million. On November 10, 2014, the Company amended these compensation awards to be settled in shares and is no longer exposed to market price fluctuations.

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 October 10, 2015 and October 4, 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 (16 weeks)**	2014 (16 weeks)	**2015 (40 weeks)**	2014 (40 weeks)
Net interest expense and other financing charges	**$ 205**	$ 150	**$ 503**	$ 415
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**(49)**	23	**(74)**	3
Accelerated amortization of deferred financing costs	**(4)**	(4)	**(15)**	(18)
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	—	**—**	(15)
Adjusted net interest expense and other financing charges	**$ 152**	$ 169	**$ 414**	$ 385

Fair value adjustment to the 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 third quarter of 2015, the Company recorded a loss of $49 million (2014 – gain of $23 million) and year-to-date a loss of $74 million (2014 – gain of $3 million) related to the fair value adjustment to the Trust Unit Liability. An increase (decrease) in market price of Units results in a charge (income) to net interest expense and other financing charges.

Accelerated amortization of deferred financing costs In the third quarter of 2015, the Company recorded a charge of $4 million (2014 – $4 million) and year-to-date $15 million (2014 – $18 million) related to the accelerated amortization of deferred financing costs due to the repayment of $312 million (2014 – $350 million) and year-to-date of $1,181 million (2014 – $1,950 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.

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)	2015 (16 weeks)	2014[3] (16 weeks)	2015 (40 weeks)	2014[3] (40 weeks)
Adjusted operating income[i]	**$ 709**	$ 669	**$ 1,864**	$ 1,491
Adjusted net interest expense and other financing charges[i]	**152**	169	**414**	385
Adjusted earnings before taxes	**$ 557**	$ 500	**$ 1,450**	$ 1,106
Income taxes	**$ 89**	$ 43	**$ 286**	$ (66)
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes[ii]	**62**	86	**144**	351
Provincial statutory corporate income tax rate change	**—**	—	**(38)**	—
Adjusted income taxes	**$ 151**	$ 129	**$ 392**	$ 285
Effective tax rate	**35.2%**	23.2%	**36.6%**	25.4%
Adjusted income tax rate	**27.1%**	25.8%	**27.0%**	25.8%

(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 EBITDA margin 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.

For the periods ended October 10, 2015 and October 4, 2014 (millions of Canadian dollars)	2015 (16 weeks)	2014[3] (16 weeks)	2015 (40 weeks)	2014[3] (40 weeks)
Adjusted net earnings attributable to shareholders of the Company	**$ 412**	$ 371	**$ 1,063**	$ 821
Less: Prescribed dividends on preferred shares in share capital	**(4)**	—	**(4)**	—
Adjusted net earnings available to common shareholders of the Company	**$ 408**	$ 371	**$ 1,059**	$ 821

The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted basic net earnings per common share to GAAP net earnings available to common shareholders of the Company and basic net earnings per common share reported for the periods ended October 10, 2015 and October 4, 2014:

	2015 (16 weeks)		2014(3) (16 weeks)		**2015 (40 weeks)**		2014(3) (40 weeks)	
(millions of Canadian dollars/Canadian dollars)	**Net Earnings Available to Common Shareholders of the Company**	**Basic Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Basic Net Earnings 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
	$ 166	**$ 0.40**	$ 142	$ 0.34	**$ 497**	**$ 1.21**	$ (194)	$ (0.52)
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**120**	**0.30**	124	0.31	**302**	**0.73**	216	0.58
Restructuring and other related costs	**76**	**0.18**	34	0.08	**132**	**0.32**	34	0.09
Fair value adjustment to the Trust Unit Liability(i)	**49**	**0.12**	(23)	(0.06)	**74**	**0.18**	(3)	(0.01)
Provincial statutory corporate income tax rate change	**—**	**—**	—	—	**38**	**0.09**	—	—
Accelerated amortization of deferred financing costs	**3**	**0.01**	3	0.01	**11**	**0.03**	13	0.04
Fair value adjustment on fuel and foreign currency contracts	**(9)**	**(0.02)**	—	—	**(11)**	**(0.03)**	—	—
Fixed asset and other related impairments, net of recoveries	**2**	**—**	8	0.02	**7**	**0.02**	12	0.03
Charge related to apparel inventory	**—**	**—**	—	—	**6**	**0.02**	—	—
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	**—**	—	—	**2**	**—**	64	0.17
Pension annuities and buy-outs	**1**	**—**	—	—	**1**	**—**	—	—
Recognition of fair value increment on inventory sold	**—**	**—**	79	0.19	**—**	**—**	536	1.45
Charge related to inventory measurement and other conversion differences	**—**	**—**	—	—	**—**	**—**	139	0.38
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	**—**	**—**	4	0.01	**—**	**—**	4	0.01
Adjusted	**$ 408**	**$ 0.99**	$ 371	$ 0.90	**$ 1,059**	**$ 2.57**	$ 821	$ 2.22

(i) Gains or losses related to the fair value adjustment to the 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 October 10, 2015 and October 4, 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 (16 weeks)**	2014 (16 weeks)	**2015 (40 weeks)**	2014 (40 weeks)
Cash flows from operating activities	**$ 1,068**	$ 704	**$ 2,515**	$ 1,617
Less:				
Capital investments	**356**	330	**808**	686
Interest paid	**134**	176	**396**	393
Free cash flow	**$ 578**	$ 198	**$ 1,311**	$ 538

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 October 10, 2015**	As at October 4, 2014	As at January 3, 2015	As at March 28, 2014
Bank indebtedness	**$ 243**	$ 323	$ 162	$ 295
Short term debt	**580**	605	605	605
Long term debt due within one year	**1,344**	71	420	902
Long term debt	**9,760**	11,549	11,042	11,262
Trust Unit Liability	**810**	697	722	703
Capital securities	**—**	224	225	224
Certain other liabilities	**31**	49	28	39
Total debt	**$ 12,768**	$ 13,518	$ 13,204	$ 14,030
Less:				
Independent Securitization Trusts	**$ 1,580**	$ 1,355	$ 1,355	$ 1,355
Independent Funding Trusts	**506**	487	498	469
Trust Unit Liability	**810**	697	722	703
Guaranteed Investment Certificates	**684**	563	634	443
Adjusted debt	**$ 9,188**	$ 10,416	$ 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 October 10, 2015 and October 4, 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 (16 weeks)**	2014 (16 weeks)	**2015 (40 weeks)**	2014 (40 weeks)
Net (loss) income	**$ (174)**	$ 123	**$ (196)**	$ 113
Fair value adjustment on Class B Limited Partnership units	**221**	(100)	**315**	(63)
Fair value adjustment on investment properties	**(1)**	16	**16**	16
Fair value adjustments on unit-based compensation	**1**	(1)	**1**	(1)
Distributions on Class B Limited Partnership units	**51**	48	**151**	141
Amortization of tenant improvement allowances	**—**	—	**—**	1
Internal expenses for leasing	**—**	—	**1**	—
Funds from Operations	**$ 98**	$ 86	**$ 288**	$ 207
Restructuring	**$ —**	$ 2	**$ —**	$ 2
Straight-line rental revenue	**(9)**	(9)	**(27)**	(26)
Amortization of finance charges	**—**	(1)	**(1)**	50
Unit-based compensation expense	**1**	1	**2**	2
Sustaining property and leasing capital expenditures, normalized[(i)]	**(11)**	(6)	**(31)**	(24)
Adjusted Funds from Operations	**$ 79**	$ 73	**$ 231**	$ 211

(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.

13. 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.

November 17, 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 12 "Non-GAAP Financial Measures".

(3) Certain 2014 figures have been restated to conform with the current year's presentation. See Section 10.1 "Changes to Significant Accounting Policies" and Section 12 "Non-GAAP Financial Measures".

(4) For segment presentation purposes, the results are for the periods ended September 30, 2015 and September 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to October 10, 2015 and October 4, 2014 are included in Consolidation and Eliminations. See Section 12 "Non-GAAP Financial Measures" and Note 21 "Segment Information" in the Company's third 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)	October 10, 2015 (16 weeks)	October 4, 2014 (16 weeks)	October 10, 2015 (40 weeks)	October 4, 2014 (40 weeks)
Revenue	**$ 13,946**	$ 13,599	**$ 34,529**	$ 31,198
Cost of Merchandise Inventories Sold	**10,174**	10,027	**25,015**	23,803
Selling, General and Administrative Expenses	**3,314**	3,237	**8,229**	7,240
Operating Income	**$ 458**	$ 335	**$ 1,285**	$ 155
Net interest expense and other financing charges (note 5)	**205**	150	**503**	415
Earnings (Loss) Before Income Taxes	**$ 253**	$ 185	**$ 782**	$ (260)
Income taxes (note 6)	**89**	43	**286**	(66)
Net Earnings (Loss)	**$ 164**	$ 142	**$ 496**	$ (194)
Attributable to:				
Shareholders of the Company	**$ 170**	$ 142	**$ 501**	$ (194)
Non-Controlling Interests (note 3)	**(6)**	—	**(5)**	—
Net Earnings (Loss)	**$ 164**	$ 142	**$ 496**	$ (194)
Net Earnings (Loss) per Common Share ($) (note 7)				
Basic	**$ 0.40**	$ 0.34	**$ 1.21**	$ (0.52)
Diluted	**$ 0.40**	$ 0.34	**$ 1.19**	$ (0.52)
Weighted Average Common Shares Outstanding (millions) (note 7)				
Basic	**411.5**	412.5	**411.8**	370.3
Diluted	**416.0**	416.7	**415.9**	370.3

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

Condensed Consolidated Statements of Comprehensive Income

(millions of Canadian dollars) (unaudited)	**October 10, 2015 (16 weeks)**	October 4, 2014 (16 weeks)	**October 10, 2015 (40 weeks)**	October 4, 2014 (40 weeks)
Net Earnings (Loss)	**$ 164**	$ 142	**$ 496**	$ (194)
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment gain	**$ 5**	$ 3	**$ 8**	$ 4
Unrealized loss on cash flow hedges (note 18)	**(1)**	—	**—**	—
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 17)	**134**	(41)	**129**	(87)
Other comprehensive income (loss)	**$ 138**	$ (38)	**$ 137**	$ (83)
Total Comprehensive Income (Loss)	**$ 302**	$ 104	**$ 633**	$ (277)
Attributable to:				
Shareholders of the Company	**$ 308**	$ 104	$ 638	$ (277)
Non-Controlling Interests	**(6)**	—	(5)	—
Total Comprehensive Income (Loss)	**$ 302**	$ 104	**$ 633**	$ (277)

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 (loss)	**$ —**	**$ —**	**$ 501**	**$ —**	**$ —**	**$ (5)**	**$ 496**
Other comprehensive income	**—**	**—**	**129**	**—**	**8**	**—**	**137**
Total Comprehensive Income (Loss)	**$ —**	**$ —**	**$ 630**	**$ —**	**$ 8**	**$ (5)**	**$ 633**
Preferred share issuance (note 15)	**221**	**—**	**—**	**—**	**—**	**—**	**221**
Common shares purchased and cancelled (note 15)	**—**	**(27)**	**(67)**	**—**	**—**	**—**	**(94)**
Net effect of equity-based compensation (note 15 and 16)	**—**	**59**	**—**	**20**	**—**	**—**	**79**
Shares purchased and held in trust (note 15)	**—**	**(17)**	**(40)**	**—**	**—**	**—**	**(57)**
Shares released from trust (note 15 and 16)	**—**	**2**	**13**	**—**	**—**	**—**	**15**
Dividends declared per common share – $0.745 (note 15)	**—**	**—**	**(307)**	**—**	**—**	**—**	**(307)**
Dividends declared per preferred share – $0.41 (note 15)	**—**	**—**	**(4)**	**—**	**—**	**—**	**(4)**
Contribution from non-controlling interests (note 3)	**—**	**—**	**—**	**—**	**—**	**1**	**1**
	$ 221	**$ 17**	**$ 225**	**$ 20**	**$ 8**	**$ (4)**	**$ 487**
Balance at October 10, 2015	**$ 221**	**$ 7,874**	**$ 5,035**	**$ 124**	**$ 16**	**$ 4**	**$ 13,274**

(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	$ —	$ —	$ (194)	$ —	$ —	$ —	$ (194)
Other comprehensive (loss) income	—	—	(87)	—	4		(83)
Total Comprehensive (Loss) Income	$ —	$ —	$ (281)	$ —	$ 4	$ —	$ (277)
Acquisition of Shoppers Drug Mart Corporation (note 4 and 15)	—	6,119	—	—	—	—	6,119
Common shares purchased and cancelled (note 15)	—	(54)	(95)			—	(149)
Net effect of equity-based compensation (note 15 and 16)	—	134	(1)	(1)	—	—	132
Shares released from trust (note 15 and 16)	—	3	17	—	—	—	20
Dividends declared per common share – $0.730 (note 15)	—	—	(270)	—	—	—	(270)
	$ —	$ 6,202	$ (630)	$ (1)	$ 4	$ —	$ 5,575
Balance at October 4, 2014	$ —	$ 7,844	$ 4,641	$ 86	$ 4	$ —	$ 12,575

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

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)	As at October 10, 2015	As at October 4, 2014[(i)]	As at January 3, 2015[(i)]
Assets			
Current Assets			
Cash and cash equivalents (note 8)	**$ 1,275**	$ 980	$ 999
Short term investments (note 8)	**46**	49	21
Accounts receivable	**1,158**	1,187	1,209
Credit card receivables (note 9)	**2,663**	2,549	2,630
Inventories (note 10)	**4,444**	4,461	4,309
Prepaid expenses and other assets (note 8)	**440**	216	214
Assets held for sale	**15**	44	23
Total Current Assets	**$ 10,041**	$ 9,486	$ 9,405
Fixed Assets	**10,318**	10,244	10,296
Investment Properties	**198**	146	185
Intangible Assets	**9,239**	9,764	9,675
Goodwill	**3,357**	3,312	3,318
Deferred Income Tax Assets	**136**	272	193
Security Deposits (note 8)	**2**	6	7
Franchise Loans Receivable	**338**	388	399
Other Assets (note 11)	**412**	209	281
Total Assets	**$ 34,041**	$ 33,827	$ 33,759
Liabilities			
Current Liabilities			
Bank indebtedness	**$ 243**	$ 323	$ 162
Trade payables and other liabilities	**4,926**	4,725	4,774
Provisions	**105**	85	84
Income taxes payable	**78**	8	34
Short term debt (note 12)	**580**	605	605
Long term debt due within one year (note 13)	**1,344**	71	420
Associate interest	**200**	177	193
Capital securities	**—**	224	225
Total Current Liabilities	**$ 7,476**	$ 6,218	$ 6,497
Provisions	**131**	67	76
Long Term Debt (note 13)	**9,760**	11,549	11,042
Trust Unit Liability (note 18)	**810**	697	722
Deferred Income Tax Liabilities	**1,854**	1,919	1,853
Other Liabilities (note 14)	**736**	802	782
Total Liabilities	**$ 20,767**	$ 21,252	$ 20,972
Equity			
Preferred Share Capital (note 15)	**$ 221**	$ —	$ —
Common Share Capital (note 15)	**7,874**	7,844	7,857
Retained Earnings	**5,035**	4,641	4,810
Contributed Surplus (note 16)	**124**	86	104
Accumulated Other Comprehensive Income	**16**	4	8
Total Equity Attributable to Shareholders of the Company	**$ 13,270**	$ 12,575	$ 12,779
Non-Controlling Interests	**4**	—	8
Total Equity	**$ 13,274**	$ 12,575	$ 12,787
Total Liabilities and Equity	**$ 34,041**	$ 33,827	$ 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)		**October 10, 2015 (16 weeks)**		October 4, 2014 (16 weeks)		**October 10, 2015 (40 weeks)**		October 4, 2014 (40 weeks)
Operating Activities								
Net earnings (loss)	**$**	**164**	$	142	**$**	**496**	$	(194)
Adjustments for:								
Income taxes (note 6)		**89**		43		**286**		(66)
Net interest expense and other financing charges (note 5)		**205**		150		**503**		415
Depreciation and amortization		**477**		500		**1,216**		1,079
Net fixed asset and other related impairments		**24**		10		**47**		15
Gain on disposal of assets		**(5)**		(11)		**(7)**		(7)
Recognition of fair value increment on inventory sold (note 10)		**—**		107		**—**		729
Charge related to inventory measurement and other conversion differences (note 10)		**—**		—		**—**		190
	$	**954**	$	941	**$**	**2,541**	$	2,161
Change in non-cash working capital		**116**		(241)		**135**		(437)
Change in credit card receivables (note 9)		**(16)**		12		**(33)**		(11)
Income taxes paid		**(25)**		(58)		**(231)**		(227)
Interest received		**2**		5		**5**		26
Other		**37**		45		**98**		105
Cash Flows from Operating Activities	**$**	**1,068**	$	704	**$**	**2,515**	$	1,617
Investing Activities								
Fixed asset purchases	**$**	**(297)**	$	(247)	**$**	**(679)**	$	(552)
Intangible asset additions		**(59)**		(83)		**(129)**		(134)
Acquisition of Shoppers Drug Mart Corporation, net of cash acquired (note 4)		**—**		—		**—**		(6,619)
Change in short term investments (note 8)		**6**		(2)		**(25)**		241
Proceeds from disposal of assets		**8**		64		**34**		76
Change in security deposits (note 8)		**(204)**		91		**(204)**		1,695
Other		**(7)**		(12)		**(62)**		(28)
Cash Flows used in Investing Activities	**$**	**(553)**	$	(189)	**$**	**(1,065)**	$	(5,321)
Financing Activities								
Change in bank indebtedness	**$**	**(32)**	$	(12)	**$**	**81**	$	28
Change in Associate interest		**16**		7		**7**		3
Change in short term debt (note 12)		**75**		—		**(25)**		—
Long Term Debt (note 13)								
Issued		**334**		106		**848**		5,740
Retired		**(313)**		(395)		**(1,281)**		(2,995)
Deferred debt financing costs		**—**		—		**—**		(29)
Interest paid		**(134)**		(176)		**(396)**		(393)
Dividends paid on common and preferred shares		**(210)**		(202)		**(311)**		(395)
Common Share Capital (note 15 and 16)								
Issued		**20**		46		**48**		610
Purchased and held in trust		**(22)**		—		**(57)**		—
Purchased and cancelled		**(39)**		(90)		**(94)**		(149)
Preferred Share Capital (note 15)								
Issued		**—**		—		**221**		—
Redeemed		**(225)**		—		**(225)**		—
Cash Flows (used in) from Financing Activities	**$**	**(530)**	$	(716)	**$**	**(1,184)**	$	2,420
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$**	**5**	$	2	**$**	**10**	$	4
Change in cash and cash equivalents	**$**	**(10)**	$	(199)	**$**	**276**	$	(1,280)
Cash and cash equivalents, beginning of period		**1,285**		1,179		**999**		2,260
Cash and Cash Equivalents, End of Period	**$**	**1,275**	$	980	**$**	**1,275**	$	980

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 November 17, 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 October 4, 2014	As at January 3, 2015	As at December 29, 2013
Fixed Assets	$ (498)	$ (498)	$ (590)
Intangible Assets	498	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, simplified 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 October 10, 2015, 43 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. The year-to-date impact was incremental revenue of $28 million, a decrease to operating income of $10 million, and a decrease to net earnings of $10 million, of which $5 million was attributable to franchisees.

Note 4. Business Acquisitions

Acquisition of Shoppers Drug Mart 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 million 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 October 4, 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, $60 million was recorded in selling, general and administrative expenses ("SG&A") and $15 million was recorded in net interest expense and other financing charges. There were no costs incurred in the third quarter of 2014.

Other Business Acquisitions In the third quarter of 2015, the Company acquired the net assets of a grocery store, including land and a building, for total consideration of $41 million, and has allocated $21 million to goodwill. The Company has not yet finalized the purchase price allocation related to this acquisition.

Note 5. Net Interest Expense and Other Financing Charges

(millions of Canadian dollars)		**October 10, 2015 (16 weeks)**		October 4, 2014 (16 weeks)		**October 10, 2015 (40 weeks)**		October 4, 2014 (40 weeks)
Interest expense and other financing charges:								
Long term debt	**$**	**138**	$	145	**$**	**367**	$	342
Shoppers Drug Mart acquisition-related costs (note 4)		**—**		—		**—**		18
Borrowings related to credit card receivables		**9**		10		**27**		28
Trust Unit distributions		**11**		15		**33**		33
Post-employment and other long term employee benefits (note 17)		**4**		3		**10**		8
Independent funding trusts		**4**		4		**11**		11
Dividends on capital securities (note 15)		**1**		4		**8**		11
Fair value adjustment to the Trust Unit Liability (note 18)		**49**		—		**74**		—
Bank indebtedness		**2**		3		**5**		5
Capitalized interest		**(2)**		(1)		**(4)**		(2)
	$	**216**	$	183	**$**	**531**	$	454
Interest income:								
Accretion income	**$**	**(8)**	$	(8)	**$**	**(21)**	$	(21)
Fair value adjustment to the Trust Unit Liability (note 18)		**—**		(23)		**—**		(3)
Short term interest income		**(3)**		(2)		**(7)**		(11)
Security deposits(i)		**—**		—		**—**		(4)
	$	**(11)**	$	(33)	**$**	**(28)**	$	(39)
Net interest expense and other financing charges	**$**	**205**	$	150	**$**	**503**	$	415

(i) The 40 weeks ended October 4, 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 third quarter of 2015 was $89 million (2014 – $43 million) and the effective income tax rate was 35.2% (2014 – 23.2%). The increase in the effective tax rate compared to the third quarter of 2014 was primarily attributable to the non-deductible fair value adjustment to the Trust Unit Liability, an increase in certain other non-deductible items and an increase in the Alberta statutory corporate income tax rate. Year-to-date income tax expense was $286 million (2014 – recovery of $66 million) and the effective tax rate was 36.6% (2014 – 25.4%). The increase in the year-to-date 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, the non-deductible fair value adjustment to the Trust Unit Liability and an increase in certain other non-deductible items.

Note 7. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**October 10, 2015 (16 weeks)**	October 4, 2014 (16 weeks)	**October 10, 2015 (40 weeks)**	October 4, 2014 (40 weeks)
Net earnings (loss) attributable to shareholders of the Company	**$ 170**	$ 142	**$ 501**	$ (194)
Prescribed dividends on Preferred Shares in Equity	**(4)**	—	**(4)**	—
Net earnings (loss) available to common shareholders	**$ 166**	$ 142	**$ 497**	$ (194)
Weighted average common shares outstanding (in millions) (note 15)	**411.5**	412.5	**411.8**	370.3
Dilutive effect of equity-based compensation (in millions)	**4.5**	3.3	**4.1**	—
Dilutive effect of certain other liabilities (in millions)	**—**	0.9	**—**	—
Diluted weighted average common shares outstanding (in millions)	**416.0**	416.7	**415.9**	370.3
Basic net earnings (loss) per common share ($)	**$ 0.40**	$ 0.34	**$ 1.21**	$ (0.52)
Diluted net earnings (loss) per common share ($)	**$ 0.40**	$ 0.34	**$ 1.19**	$ (0.52)

For the third quarter of 2015, 10,891,335 (2014 – 10,423,280) and year-to-date 10,891,335 (2014 – 14,413,309) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share were, 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 October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Cash	**$ 543**	$ 443	$ 464
Cash equivalents:			
Government treasury bills	**392**	305	463
Bank term deposits	**273**	—	—
Bankers' acceptances	**42**	66	57
Corporate commercial paper	**25**	99	15
Government agencies securities	**—**	67	—
Total cash and cash equivalents	**$ 1,275**	$ 980	$ 999

Short Term Investments

(millions of Canadian dollars)	**As at October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Government treasury bills	**$ 31**	$ 28	$ 17
Bankers' acceptances	**14**	1	2
Government agencies securities	**—**	12	—
Corporate commercial paper	**1**	6	1
Other	**—**	2	1
Total short term investments	**$ 46**	$ 49	$ 21

Security Deposits

(millions of Canadian dollars)	**As at October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Cash	**$ 140**	$ 6	$ 7
Government treasury bills	**71**	—	—
Total security deposits	**$ 211**	$ 6	$ 7
Current portion included in Prepaid and Other Assets	**209**	—	—
Security Deposits	**$ 2**	$ 6	$ 7

As at October 10, 2015, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $146 million (October 4, 2014 – $138 million; January 3, 2015 – $141 million), of which $2 million (October 4, 2014 – $6 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 October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Gross credit card receivables	**$ 2,714**	$ 2,600	$ 2,684
Allowance for credit card receivables	**(51)**	(51)	(54)
Credit card receivables	**$ 2,663**	$ 2,549	$ 2,630
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust®*	**$ 1,000**	$ 750	$ 750
Securitized to Other Independent Securitization Trusts	**580**	605	605

The Company, through President's Choice Bank ("PC Bank"), participates in various securitization programs that provide 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 third quarter of 2015, PC Bank increased its co-ownership interest in securitized receivables held with *Eagle* by $250 million. During 2015, PC Bank recorded a $25 million net reduction of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts.

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 October 10, 2015 and throughout the first three quarters of 2015.

Note 10. Inventories

For inventories recorded as at October 10, 2015, the Company recorded $31 million (October 4, 2014 – $21 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 2015 and 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 third quarter of 2014 and year-to-date, $107 million and $729 million, respectively, was recognized in cost of merchandise inventories sold.

In 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 October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Sundry investments and other receivables	**$ 149**	$ 140	$ 141
Accrued benefit plan asset	**183**	45	90
Interests in joint ventures	**8**	—	6
Other	**72**	24	44
Other assets	**$ 412**	$ 209	$ 281

Note 12. Short Term Debt

The outstanding short term debt balance of $580 million (October 4, 2014 and January 3, 2015 – $605 million) relates to credit card receivables securitized to the Other Independent Securitization Trusts with recourse (see note 9). During 2015, PC Bank recorded a $25 million net reduction of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts.

In the third quarter of 2015, PC Bank extended the maturity dates for one of its Other Independent Securitization Trust agreements from the third quarter of 2016 to the third quarter of 2017, with all other terms and conditions remaining substantially the same. In addition, in the first quarter of 2015, PC Bank extended the maturity dates for two of its 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 October 10, 2015, the aggregate gross potential liability under letters of credit for the benefit of the Other Independent Securitization Trusts was $59 million (October 4, 2014 – $54 million; January 3, 2015 – $61 million), which represented approximately 10% (October 4, 2014 – 9%; January 3, 2015 – 10%) of the securitized credit card receivables amount.

Subsequent to the end of the quarter, PC Bank reduced $50 million of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts, and decreased the aggregate gross potential liability under letters of credit by $5 million to $54 million.

Note 13. Long Term Debt

(millions of Canadian dollars)	**As at October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Debentures and Medium Term Notes	**$ 7,826**	$ 7,566	$ 7,574
Unsecured Term Loan Facilities	**298**	1,550	1,229
Long Term Debt Secured by Mortgage	**83**	86	86
Guaranteed Investment Certificates	**684**	563	634
Independent Securitization Trust	**1,000**	750	750
Independent Funding Trusts	**506**	487	498
Finance Lease Obligations	**593**	576	600
Committed Credit Facilities	**133**	77	122
Transaction costs and other	**(19)**	(35)	(31)
Total Long Term Debt	**$ 11,104**	$ 11,620	$ 11,462
Long Term Debt due within one year	**1,344**	71	420
Long Term Debt	**$ 9,760**	$ 11,549	$ 11,042

Unsecured Term Loan Facilities 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 October 10, 2015, the outstanding balance on the Acquisition Term Loan was $48 million (October 4, 2014 – $1,550 million, January 3, 2015 – $1,229 million). During the third quarter of 2015 and year-to-date, the Company repaid $312 million and $1,181 million of the Acquisition Term Loan, respectively. Since the acquisition, the Company has repaid $3,452 million of the 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 third quarter of 2015 and year-to-date, the amortization of the financing costs related to the Acquisition Term Loan was $4 million (2014 – $6 million) and $16 million (2014 – $20 million), respectively. Of the amortized amount, $4 million (2014 – $4 million) and $15 million (2014 – $18 million), respectively, was accelerated due to early repayments on the facility.

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.

The unsecured term loan facilities contain certain financial covenants, with which the Company was in compliance as at October 10, 2015 and throughout 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.

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 As at the end of the third quarter of 2014, the Company repaid, upon maturity, $450 million of medium term notes ("MTNs"). In addition, 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 Securitization Trust In the third quarter of 2015, *Eagle* issued $250 million senior and subordinated term notes with a weighted average interest rate of 2.23%, maturing on September 17, 2020. 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 the *Eagle* notes outstanding prior to 2015 (see note 9). As at October 10, 2015, the aggregate gross potential liability under letters of credit for the benefit of *Eagle* was $68 million (October 4, 2014 – nil; January 3, 2015 – $68 million), which represented 9% (October 4, 2014 – nil; January 3, 2015 – 9%) of the *Eagle* notes outstanding prior to 2015.

Independent Funding Trusts As at October 10, 2015, the independent funding trusts had drawn $506 million (October 4, 2014 – $487 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 (October 4, 2014 and January 3, 2015 – $50 million), representing not less than 10% (October 4, 2014 and January 3, 2015 – 10%) of the principal amount of loans outstanding.

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

(millions of Canadian dollars)	**October 10, 2015 (16 weeks)**	October 4, 2014 (16 weeks)	**October 10, 2015 (40 weeks)**	October 4, 2014 (40 weeks)
Balance, beginning of period	**$ 621**	$ 528	**$ 634**	$ 430
GICs issued	**72**	49	**79**	185
GICs matured	**(9)**	(14)	**(29)**	(52)
Balance, end of period	**$ 684**	$ 563	**$ 684**	$ 563

Committed Credit Facilities As at October 10, 2015, October 4, 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 October 10, 2015, Choice Properties had drawn $133 million (October 4, 2014 – $77 million; January 3, 2015 – $122 million) under its $500 million senior unsecured committed credit facility. In the third quarter of 2015, Choice Properties amended its credit facility agreement to extend the maturity date to July 5, 2020, with all other terms and conditions remaining substantially the same.

These facilities contain certain financial covenants, with which the Company and Choice Properties were in compliance as at October 10, 2015 and throughout 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 October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Debentures and Medium Term Notes	**$ 825**	$ —	$ —
Independent Securitization Trust	**350**	—	350
Guaranteed Investment Certificates	**114**	27	29
Finance Lease Obligations	**51**	41	38
Long Term Debt Secured by Mortgage	**4**	3	3
Long Term Debt due within one year	**$ 1,344**	$ 71	$ 420

Note 14. Other Liabilities

(millions of Canadian dollars)	**As at October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Net defined benefit plan obligation	**$ 288**	$ 317	$ 311
Other long term employee benefit obligation	**114**	115	116
Fair value adjustment to acquired leases	**92**	107	104
Deferred lease obligation	**92**	75	77
Equity-based compensation liability (note 16)	**9**	23	7
Other	**141**	165	167
Other liabilities	**$ 736**	$ 802	$ 782

Note 15. Share Capital

Second Preferred Share Capital (authorized – unlimited) In the third quarter of 2015, the Company redeemed all of the outstanding 9.0 million 5.95% non-voting Second Preferred Shares, Series A, for a face value of $225 million and recorded a corresponding decrease to capital securities, which were classified as other financial liabilities. The redemption was funded primarily through the proceeds received from the issuances of the Second Preferred Shares, Series B.

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.

As at October 10, 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 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

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:

	October 10, 2015 (16 weeks)		October 4, 2014 (16 weeks)		**October 10, 2015 (40 weeks)**		October 4, 2014 (40 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**412,386,285**	**$ 7,878**	412,743,370	$ 7,821	**412,480,891**	**$ 7,860**	282,311,573	$ 1,648
Issued for settlement of stock options	**565,499**	**24**	1,303,873	56	**1,341,381**	**59**	3,012,941	134
Issued for acquisition of Shoppers Drug Mart (note 4)	**—**	**—**	—	—	**—**	**—**	119,471,382	5,619
Issued to controlling shareholder (note 4)	**—**	**—**	—	—	**—**	**—**	10,515,247	500
Purchased and cancelled	**(546,351)**	**(10)**	(1,600,300)	(30)	**(1,416,839)**	**(27)**	(2,864,200)	(54)
Issued and outstanding, end of period	**412,405,433**	**$ 7,892**	412,446,943	$ 7,847	**412,405,433**	**$ 7,892**	412,446,943	$ 7,847
Shares held in trust, beginning of period	**(789,643)**	**$ (12)**	(820,379)	$ (5)	**(555,046)**	**$ (3)**	(1,067,323)	$ (6)
Purchased for future settlement of RSUs and PSUs	**(328,041)**	**(6)**	—	—	**(871,894)**	**(17)**	—	—
Release for settlement of RSUs and PSUs (note 16)	**42,481**	**—**	221,907	2	**351,737**	**2**	468,851	3
Shares held in trust, end of period	**(1,075,203)**	**$ (18)**	(598,472)	$ (3)	**(1,075,203)**	**$ (18)**	(598,472)	$ (3)
Issued and outstanding, net of shares held in trust, end of period	**411,330,230**	**$ 7,874**	411,848,471	$ 7,844	**411,330,230**	**$ 7,874**	411,848,471	$ 7,844
Weighted average outstanding, net of shares held in trust	**411,505,687**		412,478,762		**411,785,643**		370,316,810	

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

	October 10, 2015[(i)] (16 weeks)	October 4, 2014 (16 weeks)	**October 10, 2015 (40 weeks)**	October 4, 2014 (40 weeks)
Dividends declared per share ($):				
Common share	**$ 0.250**	$ 0.245	**$ 0.745**	$ 0.730
Second Preferred Share, Series A	**$ —**	$ 0.37	**$ 0.74**	$ 1.12
Second Preferred Share, Series B	**$ 0.41**	$ —	**$ 0.41**	$ —

(i) The third quarter dividends for 2015 of $0.250 per share declared on common shares were paid on October 1, 2015. The third quarter dividends for 2015 of $0.41 per share declared on Second Preferred Shares, Series B were paid on September 30, 2015.

For financial statement presentation purposes, Second Preferred Shares, Series A dividends for the third quarter of 2015 of $1 million (2014 – $4 million) and $8 million (2014 – $11 million) year-to-date were recognized on an accrued basis and 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 third quarter, the Board declared a quarterly dividend of $0.250 per common share, payable on December 30, 2015 to shareholders of record on December 15, 2015 and a dividend on the Second Preferred Shares, Series B of $0.33 per share payable on December 31, 2015 to shareholders of record on December 15, 2015.

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)		**October 10, 2015 (16 weeks)**		October 4, 2014 (16 weeks)		**October 10, 2015 (40 weeks)**		October 4, 2014 (40 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)		**546,351**		1,600,300		**1,416,839**		2,864,200
Cash consideration paid	**$**	**39**	$	90	**$**	**94**	$	149
Premium charged to Retained Earnings		**29**		60		**67**		95
Reduction in Common Share Capital		**10**		30		**27**		54
Common shares repurchased under the NCIB and held in trust (number of shares)		**328,041**		—		**871,894**		—
Cash consideration paid	**$**	**22**	$	—	**$**	**57**	$	—
Premium charged to Retained Earnings		**16**		—		**40**		—
Reduction in Common Share Capital		**6**		—		**17**		—

In 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 $22 million for the third quarter of 2015 (2014 – $25 million) and $53 million year-to-date (2014 – $57 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 October 10, 2015**		As at October 4, 2014		As at January 3, 2015
Trade payables and other liabilities	**$**	**2**	$	1	$	3
Other liabilities (note 14)		**9**		23		7
Contributed surplus		**124**		86		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)	**October 10, 2015 (16 weeks)**	October 4, 2014 (16 weeks)	**October 10, 2015 (40 weeks)**	October 4, 2014 (40 weeks)
Outstanding options, beginning of period	**8,965,804**	10,983,066	**8,364,884**	10,995,995
Granted	**28,904**	29,171	**1,568,413**	1,683,711
Converted options	**—**	—	**—**	1,026,118
Exercised	**(565,499)**	(1,303,873)	**(1,341,381)**	(3,012,941)
Forfeited/cancelled	**(97,402)**	(479,245)	**(260,109)**	(729,083)
Expired	**—**	—	**—**	(734,681)
Outstanding options, end of period	**8,331,807**	9,229,119	**8,331,807**	9,229,119

During the third quarter of 2015, the Company granted stock options with a weighted average exercise price of $69.83 (2014 – $54.81) and $63.61 year-to-date (2014 – $47.64). 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 third quarter of 2015 of $70.84 (2014 – $53.81) and $66.45 year-to-date (2014 – $49.73), and received cash consideration of $20 million (2014 – $46 million) during the third quarter of 2015 and $48 million (2014 – $110 million) year-to-date.

The fair value of stock options granted during the third quarter of 2015 was $1 million (2014 – nominal) and $14 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:

	October 10, 2015 (16 weeks)	October 4, 2014 (16 weeks)	**October 10, 2015 (40 weeks)**	October 4, 2014 (40 weeks)
Expected dividend yield	**1.4%**	1.8%	**1.5%**	1.9%
Expected share price volatility	**18.6% – 19.0%**	18.5% – 22.2%	**18.5% – 20.1%**	18.5% – 23.2%
Risk-free interest rate	**0.6% – 1.0%**	1.3% – 1.8%	**0.6% – 1.4%**	1.3% – 1.9%
Expected life of options	**3.9 – 6.3 years**	3.9 – 6.3 years	**3.9 – 6.3 years**	3.9 – 6.5 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at October 10, 2015 was 11.0% (October 4, 2014 – 12.0%).

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

(Number of Awards)	**October 10, 2015 (16 weeks)**	October 4, 2014(i) (16 weeks)	**October 10, 2015 (40 weeks)**	October 4, 2014(i) (40 weeks)
RSUs, beginning of period	**1,433,267**	1,219,925	**1,462,790**	1,084,514
Granted	**21,478**	23,190	**288,715**	419,820
Reinvested	**4,100**	—	**6,208**	—
Settled	**(24,024)**	(221,374)	**(275,783)**	(465,416)
Forfeited	**(21,182)**	(65,673)	**(68,291)**	(82,850)
RSUs, end of period	**1,413,639**	956,068	**1,413,639**	956,068

(i) In 2014, the Company converted Shoppers Drug Mart RSUs to Loblaw RSUs, which initially required settlement in cash. As at October 4, 2014, the number of cash settled converted RSUs outstanding, not included in the continuity, was 599,831 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 third quarter of 2015 was $1 million (2014 – $1 million) and $17 million year-to-date (2014 – $19 million).

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

(Number of Awards)	**October 10, 2015 (16 weeks)**	October 4, 2014 (16 weeks)	**October 10, 2015 (40 weeks)**	October 4, 2014 (40 weeks)
PSUs, beginning of period	**1,131,719**	1,111,547	**1,019,304**	309,110
Granted	**49,070**	21,345	**305,518**	834,423
Settled	**(18,457)**	(533)	**(76,304)**	(3,435)
Forfeited	**(16,729)**	(85,612)	**(102,915)**	(93,351)
PSUs, end of period	**1,145,603**	1,046,747	**1,145,603**	1,046,747

The fair value of PSUs granted during the third quarter of 2015 was $3 million (2014 – $1 million) and $19 million year-to-date (2014 – $37 million).

Settlement of Awards from Shares Held in Trust The Company settled RSUs and PSUs totaling 42,481 during the third quarter of 2015 (2014 – 221,907) and 352,087 year-to-date (2014 – 468,851), of which 42,481 (2014 – 221,907) and 351,737 (2014 – 468,851), respectively, were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 15).

The settlements in the third quarter of 2015 and year-to-date resulted in a $2 million and $13 million increase to retained earnings, respectively (2014 – $7 million and $16 million increase, respectively), and a nominal and $2 million increase to common share capital, respectively (2014 – $2 million and $3 million increase, 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)	**October 10, 2015 (16 weeks)**	October 4, 2014 (16 weeks)	**October 10, 2015 (40 weeks)**	October 4, 2014 (40 weeks)
Post-employment benefit costs recognized in operating income(i)	**$ 50**	$ 42	**$ 121**	$ 105
Other long term employee benefits costs recognized in operating income(ii)	**5**	6	**14**	17
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 5)	**4**	3	**10**	8
Actuarial (gains) losses before income taxes recognized in other comprehensive income	**(183)**	57	**(176)**	119

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

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

The actuarial gains recognized in third 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 gains were primarily driven by increases in discount rates and higher than expected returns on assets. The actuarial losses recognized in the third quarter of 2014 and year-to-date were primarily driven by decreases in the discount rate, 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 October 10, 2015				As at October 4, 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	**$ 1,250**	**$ 25**	**$ —**	**$ 1,275**	$ 881	$ 99	$ —	$ 980	$ 984	$ 15	$ —	$ 999
Short term investments	**45**	**1**	**—**	**46**	41	8	—	49	19	2	—	21
Security deposits	**211**	**—**	**—**	**211**	6	—	—	6	7	—	—	7
Franchise loans receivable	**—**	**—**	**338**	**338**	—	—	388	388	—	—	399	399
Certain other assets(i)	**25**	**26**	**64**	**115**	—	11	56	67	—	8	64	72
Derivatives included in prepaid expenses and other assets	**2**	**16**	**—**	**18**	—	2	—	2	—	10	—	10
Financial liabilities:												
Derivatives included in trade payables and other liabilities	**—**	**2**	**—**	**2**	—	—	2	2	—	11	4	15
Trust unit liability	**810**	**—**	**—**	**810**	697	—	—	697	722	—	—	722
Long term debt	**—**	**11,917**	**—**	**11,917**	—	12,526	—	12,526	—	12,508	—	12,508
Capital securities(ii)	**—**	**—**	**—**	**—**	236	—	—	236	234	—	—	234
Certain other liabilities(i)	**—**	**—**	**24**	**24**	—	4	27	31	—	—	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) In 2015, the Company redeemed its $225 million of Capital Securities, representing all of the outstanding Second Preferred Shares, Series A (see note 15). As at October 4, 2014 and January 3, 2015, capital securities were classified as current liabilities.

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

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

During the third quarter of 2015, the Company recognized a nominal gain (2014 – gain of $3 million) and a gain of $1 million year-to-date (2014 – gain of $6 million) in operating income on financial instruments designated as fair value through profit or loss. In addition, during the third quarter of 2015, a loss of $28 million (2014 – gain of $22 million) and a loss of $36 million year-to-date (2014 – gain of $6 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 October 10, 2015, October 4, 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 October 10, 2015 was nominal (October 4, 2014 – $2 million in trade payables and other liabilities; January 3, 2015 – $4 million in trade payables and other liabilities). During the third quarter of 2015, the Company recorded in operating income a nominal loss (2014 – $3 million loss) and a $4 million gain (2014 – $1 million gain) year-to-date. As at October 10, 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 third quarter of 2015, the Company recognized a fair value gain of $21 million (2014 – $2 million gain) and $34 million gain year-to-date (2014 – $2 million 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 October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Cumulative unrealized gains recorded in prepaid expenses and other assets	**$ 16**	$ 2	$ 10
Cumulative unrealized losses recorded in trade payables and other liabilities	**2**	—	11

Trust Unit Liability As at October 10, 2015, the fair value of the Trust Unit Liability of $810 million (October 4, 2014 – $697 million; January 3, 2015 – $722 million) was recorded on the condensed consolidated balance sheets. During the third quarter of 2015 and year-to-date, the Company recorded a fair value loss of $49 million (2014 – gain of $23 million) and a loss of $74 million (2014 – gain of $3 million), respectively, in net interest expense and other financing charges related to Choice Properties' Trust Units ("Units").

As at October 10, 2015, 69,064,425 Units were held by unitholders other than the Company (October 4, 2014 – 67,239,974; January 3, 2015 – 67,755,010). During the third quarter of 2015, Choice Properties issued 470,481 Units (2014 – 403,382) and 1,309,415 Units year-to-date (2014 – 1,125,745) 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 October 10, 2015, the Company held an 83.0% (October 4, 2014 – 82.5%; 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 $338 million (October 4, 2014 – $388 million; January 3, 2015 – $399 million) was recorded on the condensed consolidated balance sheets. In the third quarter of 2015, the Company recorded a nominal impairment loss (2014 – loss of $2 million) and a nominal impairment loss (2014 – loss of $7 million) year-to-date in operating income related to these loans receivable.

The value of Loblaw franchise investments of $59 million (October 4, 2014 – $56 million; January 3, 2015 – $62 million) was recorded in other assets. During the third quarter of 2015, the Company recorded a loss of $1 million (2014 – loss of $7 million) and a loss of $5 million year-to-date (2014 – loss of $13 million) in operating income related to these investments.

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 October 10, 2015, the fair value of these investments of $25 million was included in other assets. During the third 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.

The following is a description of the Company's financial instruments that are qualified for hedge accounting:

Foreign Exchange Forwards During 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 third quarter of 2015 and year-to-date, PC Bank recorded an unrealized fair value gain of $1 million and $2 million, respectively, in other comprehensive income related to the effective portion of these agreements.

As at October 10, 2015, an unrealized fair value gain of $2 million (October 4, 2014 – nil; January 3, 2015 – nil) was included in prepaid expenses and other assets related to these forwards.

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. In the third quarter of 2015, PC Bank settled $300 million of its bond forward agreements upon maturity and deferred a loss of $2 million in accumulated other comprehensive income to be recognized in operating income as future interest payments are made. Accordingly, during the third quarter of 2015 and year-to-date, a fair value loss of $2 million on the effective portion of the bond forward agreements was recorded in other comprehensive income.

As at October 10, 2015, a nominal unrealized fair value loss (October 4, 2014 – nil; January 3, 2015 – nil) was included in trade payables and other liabilities related to the remaining bond forward agreements.

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.

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice against the Company and certain subsidiaries, Weston and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim 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.

During the second quarter of 2015, the Company was reassessed by the Canada Revenue Agency ("CRA") and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited, a wholly owned Barbadian subsidiary, should be treated, and taxed, as income in Canada. The reassessments were 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

In the third quarter of 2015, the Company finalized a 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 be completed by the end of the second quarter of 2016. In the third quarter and year-to-date 2015, the Company recorded in SG&A $86 million and $131 million, respectively, of restructuring and other related costs pertaining to this initiative.

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:

	October 10, 2015 (16 weeks)					October 4, 2014 (16 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)	**$ 13,715**	**$ 211**	**$ 187**	**$ (167)**	**$ 13,946**	$ 13,375	$ 207	$ 171	$ (154)	$ 13,599
EBITDA(iii)	**$ 889**	**$ 39**	**$ 136**	**$ (129)**	**$ 935**	$ 790	$ 42	$ 105	$ (102)	$ 835
Adjusting Items(iii)	**87**	**—**	**—**	**—**	**87**	164	—	2	—	166
Adjusted EBITDA(iii)	**$ 976**	**$ 39**	**$ 136**	**$ (129)**	**$ 1,022**	$ 954	$ 42	$ 107	$ (102)	$ 1,001
Depreciation and Amortization(iv)	**306**	**2**	**1**	**4**	**313**	328	1	—	3	332
Adjusted Operating Income(iii)	**$ 670**	**$ 37**	**$ 135**	**$ (133)**	**$ 709**	$ 626	$ 41	$ 107	$ (105)	$ 669
Net interest expense and other financing charges	**$ 108**	**$ 14**	**$ 308**	**$ (225)**	**$ 205**	$ 119	$ 14	$ (18)	$ 35	$ 150

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $127 million (2014 – $118 million) of rental revenue and $40 million (2014 – $36 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Operating income includes the elimination of the $127 million (2014 – $118 million) impact of rental revenue described above; the elimination of a $1 million gain (2014 – $16 million loss) 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 $4 million (2014 – $3 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of $1 million (2014 – nil)
- Net interest expense and other financing charges includes the elimination of $64 million (2014 – $61 million) of interest expense included in Choice Properties related to debt owing to the Company and a $221 million fair value loss (2014 – gain of $100 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 and a $49 million fair value loss (2014 – gain of $23 million) on the Company's Trust Unit Liability and, in 2014, the $8 million reversal of Choice Properties interest expense incurred to June 30, 2014.

(ii) Included in Financial Services revenue is $93 million (2014 – $91 million) of interest income.

(iii) Certain items are excluded from EBITDA(2) to derive adjusted EBITDA(2).Adjusted EBITDA(2) is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $164 million (2014 – $168 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	October 10, 2015 (40 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations(i)	Total	October 4, 2014 (40 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations(i)	Total
Revenue(ii)	**$ 33,863**	**$ 609**	**$ 552**	**$ (495)**	**$ 34,529**	$ 30,567	$ 579	$ 508	$ (456)	$ 31,198
EBITDA(iii)	**$ 2,362**	**$ 122**	**$ 378**	**$ (361)**	**$ 2,501**	$ 1,103	$ 120	$ 345	$ (334)	$ 1,234
Adjusting Items(iii)	**167**	**—**	**—**	**—**	**167**	1,040	—	3	—	1,043
Adjusted EBITDA(iii)	**$ 2,529**	**$ 122**	**$ 378**	**$ (361)**	**$ 2,668**	$ 2,143	$ 120	$ 348	$ (334)	$ 2,277
Depreciation and Amortization(iv)	**786**	**7**	**1**	**10**	**804**	772	5	—	9	786
Adjusted Operating Income(iii)	**$ 1,743**	**$ 115**	**$ 377**	**$ (371)**	**$ 1,864**	$ 1,371	$ 115	$ 348	$ (343)	$ 1,491
Net interest expense and other financing charges	**$ 285**	**$ 42**	**$ 572**	**$ (396)**	**$ 503**	$ 286	$ 39	$ 232	$ (142)	$ 415

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $374 million (2014 – $350 million) of rental revenue and $121 million (2014 – $106 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Operating income includes the elimination of the $374 million (2014 – $350 million) impact of rental revenue described above; the elimination of a $16 million loss (2014 – $16 million loss) 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 $10 million (2014 – $9 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of $3 million (2014 – nil).
- Net interest expense and other financing charges includes the elimination of $188 million (2014 – $235 million) of interest expense included in Choice Properties related to debt owing to the Company and a $315 million fair value loss (2014 – gain of $63 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 $33 million (2014 – $33 million), which excludes distributions paid to the Company and a $74 million fair value loss (2014 – gain of $3 million) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $274 million (2014 – $266 million) of interest income.

(iii) Certain items are excluded from EBITDA(2) to derive adjusted EBITDA(2).Adjusted EBITDA(2) is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $412 million (2014 – $293 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	**As at October 10, 2015**	As at October 4, 2014	As at January 3, 2015
Total Assets			
Retail	**$ 29,833**	$ 30,259	$ 30,048
Financial Services(i)	**3,508**	2,985	3,094
Choice Properties(i)	**8,603**	7,774	8,192
Consolidation and Eliminations(ii)	**(7,903)**	(7,191)	(7,575)
Total	**$ 34,041**	$ 33,827	$ 33,759

(i) For segment presentation purposes, the results are for the quarter ended September 30, 2015, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to October 10, 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)	**October 10, 2015 (16 weeks)**	October 4, 2014 (16 weeks)	**October 10, 2015 (40 weeks)**	October 4, 2014 (40 weeks)
Additions to Fixed Assets and Intangible Assets				
Retail	**$ 299**	$ 304	**$ 700**	$ 597
Financial Services[(i)]	**5**	5	**10**	15
Choice Properties[(i)]	**64**	24	**297**	135
Consolidation and Eliminations[(ii)]	**(12)**	(3)	**(199)**	(61)
Total	**$ 356**	$ 330	**$ 808**	$ 686

(i) For segment presentation purposes, the results are for the quarter ended September 30, 2015, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to October 10, 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 October 10, 2015 and October 4, 2014 (millions of Canadian dollars except where otherwise indicated)		2015 (16 weeks)		2014 (16 weeks)
Consolidated Results of Operations				
Revenue	$	13,946	$	13,599
Revenue growth		2.6%		35.9%
Adjusted EBITDA[2]	$	1,022	$	1,001
Adjusted EBITDA margin[2]		7.3%		7.4%
Net interest expense and other financing charges	$	205	$	150
Adjusted net interest expense and other financing charges[2]		152		169
Net earnings		164		142
Net earnings attributable to shareholders of the Company		170		142
Net earnings available to common shareholders of the Company		166		142
Adjusted net earnings available to common shareholders of the Company[2]		408		371
Adjusted debt[2] to rolling year adjusted EBITDA[2]		2.5x		3.8x
Rolling year adjusted return on equity[3]		11.4%		10.1%
Rolling year adjusted return on capital[3]		8.6%		8.5%
Consolidated Financial Position and Cash Flows				
Adjusted debt[2]	$	9,188	$	10,416
Cash and cash equivalents, short term investments and security deposits		1,532		1,035
Cash flows from operating activities		1,068		704
Capital investments		356		330
Free cash flow[2]		578		198
Consolidated Per Common Share ($)				
Basic net earnings	$	0.40	$	0.34
Adjusted basic net earnings[2]	$	0.99	$	0.90
Retail Results of Operations				
Sales	$	13,715	$	13,375
Gross profit		3,560		3,366
Adjusted gross profit[2]		3,560		3,473
Adjusted gross profit %[2]		26.0%		26.0%
Adjusted EBITDA[2]	$	976	$	954
Adjusted EBITDA margin[2]		7.1%		7.1%
Depreciation and amortization	$	470	$	496
Retail Operating Statistics				
Food retail same-store sales growth		1.3%		2.6%
Drug retail same-store sales growth		4.9%		2.5%
Total retail square footage (in millions)		70.0		69.9
Number of corporate stores		604		617
Number of franchise stores		529		515
Number of Associate-owned drug stores		1,307		1,308
Financial Services Results of Operations[4]				
Revenue	$	211	$	579
Adjusted EBITDA[2]		39		42
Earnings before income taxes		23		27
Financial Services Operating Measures and Statistics[4]				
Average quarterly net credit card receivables	$	2,604	$	2,512
Credit card receivables		2,663		2,549
Allowance for credit card receivables		51		51
Annualized yield on average quarterly gross credit card receivables		13.6%		13.8%
Annualized credit loss rate on average quarterly gross credit card receivables		4.4%		4.4%
Choice Properties Results of Operations and Measures[4]				
Revenue	$	187	$	171
Adjusted EBITDA[2]		136		107
Net interest expense and other financing charges		308		(18)
Adjusted funds from operations[2]		79		73

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 12 "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 September 30, 2015 and September 30, 2014, consistent with the segments' fiscal calendars. Adjustments to align Financial Services' and Choice Properties' results to October 10, 2015 and October 4, 2014 are included in Consolidation and Eliminations. See Section 12 "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.

Shareholder Information

Registrar and Transfer Agent

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

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

Investor Relations

Investor inquiries, contact: Sophia Bisoukis Investor Relations (905) 861-2436 investor@loblaw.ca	Media inquiries, contact: Kevin Groh Vice President, Corporate Affairs and Communication (905) 861-2437 pr@loblaw.ca

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

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on November 18, 2015 at 10:00 a.m. (ET).

To access via tele-conference please dial (416) 204-9702. The playback will be made available two hours after the event at (647) 436-0148, access code: 667786. 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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Loblaw

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