Q3

THIRD QUARTER REPORT TO SHAREHOLDERS
40 WEEKS ENDING OCTOBER 8, 2016

Loblaw
COMPANIES LIMITED

2016 Third Quarter Report to Shareholders

2016 Third Quarter Highlights(1)

"We lowered prices and consumers responded," said Galen G. Weston, Executive Chairman and President, Loblaw Companies Limited.

"In the third quarter we continued to gain momentum, improving our sales performance, while remaining focused on executing our financial plan."

Financial Highlights

- Revenue was $14,143 million, an increase of $197 million, or 1.4%, compared to the third quarter of 2015.
- Retail segment sales were $13,891 million, an increase of $176 million, or 1.3%, compared to the third quarter of 2015.
  - Food retail (Loblaw) same-store sales growth was 1.4%, excluding gas bar;
  - Drug retail (Shoppers Drug Mart) same-store sales growth was 2.8%, with same-store pharmacy sales increasing by 1.6% and same-store front store sales increasing by 3.9%.
- Adjusted EBITDA(2) was $1,143 million, an increase of $121 million, or 11.8%, compared to the third quarter of 2015.
- Adjusted net earnings available to common shareholders of the Company(2) were $512 million, an increase of $104 million, or 25.5%, compared to the third quarter of 2015. Adjusted diluted net earnings per common share(2) were $1.26, an increase of $0.28, or 28.6%, compared to the third quarter of 2015.
- Net earnings available to common shareholders of the Company were $419 million, an increase of $253 million, or 152.4%, compared to the third quarter of 2015. Diluted net earnings per common share were $1.03, an increase of $0.63, or 157.5%, compared to the third quarter of 2015. Net earnings growth is significantly higher than adjusted net earnings(2) growth due to the impact of restructuring charges included in prior year net earnings and the impact of the fair value adjustment to the Trust Unit Liability when compared to the third quarter of 2015.
- The Company repurchased 2.1 million shares for cancellation at a cost of $145 million.

See "MD&A Endnotes" at the end of the Company's Management 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 2016 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 2, 2016 and the related annual MD&A included in the Company's 2015 Annual Report – Financial Review ("2015 Annual Report").

The Company's third quarter 2016 unaudited interim period condensed consolidated financial statements and the 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 2015 Annual Report.

The information in this MD&A is current to November 15, 2016, 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"), anticipated insurance recoveries, future liquidity, 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, Section 5 "Liquidity and Capital Resources" and 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" 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 2016 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 12 "Enterprise Risks and Risk Management" of the Company's 2015 Annual Report, and the Company's 2015 Annual Information Form ("AIF") (for the year ended January 2, 2016). Such risks and uncertainties include:

- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure to realize the anticipated strategic benefits associated with the acquisition of Shoppers Drug Mart;
- public health events including those related to food or drug safety;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies associated with the Company's major initiatives, including those from restructuring;

- failure by the Company's franchisees or Shoppers Drug Mart licensees ("Associates") to operate in accordance with prescribed procedures or standards, or disruptions to the Company's relationship with its franchisees or Associates;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- changes in the Company's income, capital, commodity, property and other tax and regulatory liabilities, including changes in tax laws, regulations or future assessments;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business;
- issues with vendors in both advanced and developing markets;
- 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;
- failure to merchandise effectively or in a manner that is responsive to customer demand;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates, interest rates, currency exchange rates or derivative and commodity prices;
- the impact of potential environmental liabilities; and
- the inability of the Company to collect on or 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 ("securities regulators") from time to time, including, without limitation, the section entitled "Risks" in the Company's 2015 AIF (for the year ended January 2, 2016). 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 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)		**2016 (16 weeks)**		2015 (16 weeks)
Consolidated:				
Revenue growth		**1.4%**		2.6%
Adjusted EBITDA(2)	**$**	**1,143**	$	1,022
Adjusted EBITDA margin(2)		**8.1%**		7.3%
Net earnings attributable to shareholders of the Company	**$**	**422**	$	170
Net earnings available to common shareholders of the Company		**419**		166
Adjusted net earnings available to common shareholders of the Company(2)		**512**		408
Diluted net earnings per common share ($)	**$**	**1.03**	$	0.40
Adjusted diluted net earnings per common share(2) ($)	**$**	**1.26**	$	0.98
Cash and cash equivalents, short term investments and security deposits	**$**	**1,470**	$	1,532
Cash flows from operating activities		**1,112**		1,068
Free cash flow(2)		**564**		578
Retail debt to rolling year retail adjusted EBITDA(2)		**1.8x**		2.0x
Rolling year adjusted return on equity(2)		**12.6%**		11.4%
Rolling year adjusted return on capital(2)		**8.5%**		7.7%
Retail Segment:				
Food retail same-store sales growth		**0.8%**		1.3%
Drug retail same-store sales growth		**2.8%**		4.9%
Adjusted gross profit(2)	**$**	**3,714**	$	3,560
Adjusted gross profit %(2)		**26.7%**		26.0%
Adjusted EBITDA(2)	**$**	**1,087**	$	976
Adjusted EBITDA margin(2)		**7.8%**		7.1%
Financial Services Segment(4):				
Adjusted EBITDA(2)	**$**	**44**	$	39
Earnings before income taxes		**28**		23
Annualized yield on average quarterly gross credit card receivables		**13.6%**		13.6%
Annualized credit loss rate on average quarterly gross credit card receivables		**4.5%**		4.4%
Choice Properties Segment(4):				
Adjusted EBITDA(2)	**$**	**186**	$	136
Adjusted funds from operations(2)		**82**		79

3. Consolidated Results of Operations

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (16 weeks)	2015 (16 weeks)	$ Change	% Change	2016 (40 weeks)	2015 (40 weeks)	$ Change	% Change
Revenue	**$ 14,143**	$ 13,946	$ 197	1.4 %	**$ 35,255**	$ 34,529	$ 726	2.1 %
Adjusted EBITDA(2)	**1,143**	1,022	121	11.8 %	**2,896**	2,668	228	8.5 %
Adjusted EBITDA margin(2)	**8.1%**	7.3%			**8.2%**	7.7%		
Depreciation and amortization(i)	**$ 464**	$ 477	$ (13)	(2.7)%	**$ 1,178**	$ 1,216	$ (38)	(3.1)%
Net interest expense and other financing charges	**132**	205	(73)	(35.6)%	**525**	503	22	4.4 %
Adjusted net interest expense and other financing charges(2)	**152**	152	—	— %	**405**	414	(9)	(2.2)%
Adjusted income taxes(2)	**183**	151	32	21.2 %	**474**	392	82	20.9 %
Adjusted income tax rate(2)	**26.5%**	27.1%			**27.5%**	27.0%		
Net earnings attributable to shareholders of the Company	**$ 422**	$ 170	$ 252	148.2 %	**$ 779**	$ 501	$ 278	55.5 %
Net earnings available to common shareholders of the Company(ii)	**419**	166	253	152.4 %	**770**	497	273	54.9 %
Adjusted net earnings available to common shareholders of the Company(2)	**512**	408	104	25.5 %	**1,262**	1,059	203	19.2 %
Diluted net earnings per common share ($)	**$ 1.03**	$ 0.40	$ 0.63	157.5 %	**$ 1.88**	$ 1.19	$ 0.69	58.0 %
Adjusted diluted net earnings per common share(2) ($)	**1.26**	0.98	0.28	28.6 %	**3.08**	2.55	0.53	20.8 %
Diluted weighted average common shares outstanding (millions)	**407.0**	416.0			**410.0**	415.9		

(i) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $164 million (2015 – $164 million) and $411 million (2015 – $412 million) of amortization of intangible assets acquired with Shoppers Drug Mart for the third quarter of 2016 and year-to-date basis, respectively.

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

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share Adjusted net earnings available to common shareholders of the Company(2) in the third quarter of 2016 were $512 million ($1.26 per common share), an increase of $104 million ($0.28 per common share) compared to the third quarter of 2015, primarily due to the following:

- improvements in the performance of the Retail segment, which (excluding the impact of the consolidation of franchises) included achieving positive same-store sales, maintaining a stable gross margin and lower selling, general and administrative expenses ("SG&A");
- improvements in the performance of the Financial Services segment, driven by the growth in credit card receivables and Mobile Shop sales;
- improvements in the performance of the Choice Properties segment, driven by an increase in base rent and net recoveries of property tax and operating costs from existing properties; and
- the favourable impact of a decrease in depreciation and amortization of $13 million primarily due to a change in the estimated useful life of certain equipment and fixtures in the second quarter of 2016.

Net earnings available to common shareholders of the Company in the third quarter of 2016 were $419 million ($1.03 per common share), an increase of $253 million ($0.63 per common share) compared to the third quarter of 2015. In addition to the impact of the items described above, the increase in net earnings available to common shareholders of the Company included the year-over-year impact of the following significant items:

- the favourable impact of a decrease in restructuring and other related costs of $95 million ($0.18 per common share); and
- a decrease in net interest expense and other financing charges, primarily due to the fair value adjustment to the Trust Unit Liability of $69 million ($0.17 per common share).

Year-to-date adjusted net earnings available to common shareholders of the Company(2) were $1,262 million ($3.08 per common share), an increase of $203 million ($0.53 per common share) compared to the same period of 2015. The increase in adjusted net earnings available to common shareholders of the Company(2) was primarily due to the following:

- improved performance in the Retail segment;
- the positive contribution from incremental net synergies;
- the favourable impact of a decrease in depreciation and amortization of $38 million, primarily due to a change in the estimated useful life of certain equipment and fixtures in the second quarter of 2016;
- the favourable impact of a decrease of $9 million in adjusted net interest expense and other financing charges(2) due to lower debt; partially offset by
- the impact of an increase in the adjusted income tax rate(2) primarily due to an increase in the Alberta statutory corporate income tax rate.

Year-to-date net earnings available to common shareholders of the Company were $770 million ($1.88 per common share) in 2016, an increase of $273 million ($0.69 per common share) compared to the same period of 2015. In addition to the items described above, the increase in net earnings available to common shareholders of the Company included the year-over-year impact of the following significant items:

- the favourable impact of a decrease in restructuring and other related costs of $117 million ($0.22 per common share);
- the favourable impact of a statutory corporate income tax rate change of $35 million ($0.08 per common share); partially offset by
- an increase in net interest expense and other financing charges, primarily due to the fair value adjustment to the Trust Unit Liability of $46 million ($0.12 per common share).

Revenue

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (16 weeks)**	2015 (16 weeks)	$ Change	% Change	**2016 (40 weeks)**	2015 (40 weeks)	$ Change	% Change
Retail	**$ 13,891**	$ 13,715	$ 176	1.3%	**$ 34,539**	$ 33,863	$ 676	2.0%
Financial Services	**229**	211	18	8.5%	**650**	609	41	6.7%
Choice Properties	**196**	187	9	4.8%	**586**	552	34	6.2%
Consolidation and Eliminations	**(173)**	(167)	(6)		**(520)**	(495)	(25)	
Revenue	**$ 14,143**	$ 13,946	$ 197	1.4%	**$ 35,255**	$ 34,529	$ 726	2.1%

Revenue was $14,143 million in the third quarter of 2016, an increase of $197 million compared to the third quarter of 2015, primarily driven by a $176 million increase in Retail segment sales. Excluding the consolidation of franchises, Retail segment sales increased by $74 million due to positive same-store sales growth. Food retail same-store sales growth was 0.8% (2015 – 1.3%) and excluding gas bar was 1.4% (2015 – 3.1%(5)). Drug retail same-store sales growth was 2.8% (2015 – 4.9%).

Year-to-date revenue was $35,255 million in 2016, an increase of $726 million compared to the same period in 2015, primarily driven by a $676 million increase in Retail segment sales. Excluding the consolidation of franchises, Retail segment sales increased by $440 million due to positive same-store sales growth. Food retail same-store sales growth was 1.1% (2015 – 1.7%) and excluding gas bar was 1.5% (2015 – 3.6%(5)). Drug retail same-store sales growth was 4.2% (2015 – 4.0%).

Adjusted EBITDA[(2)]

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (16 weeks)**	2015 (16 weeks)	$ Change	% Change	**2016 (40 weeks)**	2015 (40 weeks)	$ Change	% Change
Retail	**$ 1,087**	$ 976	$ 111	11.4%	**$ 2,742**	$ 2,529	$ 213	8.4%
Financial Services	**44**	39	5	12.8%	**132**	122	10	8.2%
Choice Properties	**186**	136	50	36.8%	**433**	378	55	14.6%
Consolidation and Eliminations	**(174)**	(129)	(45)		**(411)**	(361)	(50)	
Adjusted EBITDA[(2)]	**$ 1,143**	$ 1,022	$ 121	11.8%	**$ 2,896**	$ 2,668	$ 228	8.5%

Adjusted EBITDA[(2)] was $1,143 million in the third quarter of 2016, an increase of $121 million compared to the third quarter of 2015. Excluding the impact of the consolidation of franchises, adjusted EBITDA[(2)] increased by $115 million. The increase was primarily driven by Retail segment performance including higher sales, stable gross margins and lower SG&A.

Year-to-date adjusted EBITDA[(2)] was $2,896 million in 2016, an increase of $228 million compared to the same period in 2015. Excluding the impact of the consolidation of franchises, adjusted EBITDA[(2)] increased by $227 million. The increase was primarily driven by Retail segment performance including higher sales, stable gross margins, the positive impact of incremental net synergies and lower SG&A.

Depreciation and Amortization Depreciation and amortization was $464 million in the third quarter of 2016, a decrease of $13 million compared to the third quarter of 2015. Excluding the impact of the amortization of intangible assets acquired from Shoppers Drug Mart, depreciation and amortization decreased by $13 million, primarily attributable to a change in the estimated useful life of certain equipment and fixtures in the second quarter of 2016.

Year-to-date depreciation and amortization was $1,178 million in 2016, a decrease of $38 million compared to the same period in 2015. Excluding the impact of the amortization of intangible assets acquired from Shoppers Drug Mart, depreciation and amortization decreased by $37 million, primarily attributable to a change in the estimated useful life of certain equipment and fixtures in the second quarter of 2016 and lower depreciation of older supply chain assets.

Net Interest Expense and Other Financing Charges

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars)	**2016 (16 weeks)**	2015 (16 weeks)	**2016 (40 weeks)**	2015 (40 weeks)
Net interest expense and other financing charges	**$ 132**	$ 205	**$ 525**	$ 503
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**20**	(49)	**(120)**	(74)
Accelerated amortization of deferred financing costs	**—**	(4)	**—**	(15)
Adjusted net interest expense and other financing charges[(2)]	**$ 152**	$ 152	**$ 405**	$ 414

Adjusted net interest expense and other financing charges[(2)] were $152 million in the third quarter of 2016, flat compared to the third quarter of 2015, and included the following:

- lower interest expense in the Retail segment due to repayment of Medium Term Notes ("MTN") in 2016; partially offset by
- an increase in interest expense in the Choice Properties segment due to debt issuances.

Net interest expense and other financing charges were $132 million in the third quarter of 2016, a decrease of $73 million compared to the third quarter of 2015. The decrease in net interest expense and other financing charges was primarily due to the impact of the fair value adjustment to the Trust Unit Liability of $69 million and the items described above.

Year-to-date adjusted net interest expense and other financing charges(2) were $405 million in 2016, a decrease of $9 million compared to the same period in 2015, primarily driven by the following factors:

- a decrease in interest expense in the Retail segment due to the repayment of MTNs in 2016 and repayment of capital securities at par in the third quarter of 2015;
- a decrease in interest expense in the Financial Services segment due to the *Eagle Credit Card Trust® ("Eagle")* debt repayment; partially offset by
- an increase in interest expense in the Choice Properties segment due to debt issuances.

Net interest expense and other financing charges were $525 million in 2016, an increase of $22 million compared to the same period in 2015. The increase in net interest expense and other financing charges was primarily due to the fair value adjustment to the Trust Unit Liability of $46 million, partially offset by the accelerated amortization of deferred financing costs in 2015 of $15 million and the net impact of the items described above.

Income Taxes

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (16 weeks)**	2015 (16 weeks)	**2016 (40 weeks)**	2015 (40 weeks)
Adjusted operating income(2)	**$ 843**	$ 709	**$ 2,129**	$ 1,864
Adjusted net interest expense and other financing charges(2)	**152**	152	**405**	414
Adjusted earnings before taxes(2)	**$ 691**	$ 557	**$ 1,724**	$ 1,450
Income taxes	**$ 143**	$ 89	**$ 360**	$ 286
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	**40**	62	**117**	144
Statutory corporate income tax rate change	**—**	—	**(3)**	(38)
Adjusted income taxes(2)	**$ 183**	$ 151	**$ 474**	$ 392
Effective tax rate	**25.6%**	35.2%	**32.2%**	36.6%
Adjusted income tax rate(2)	**26.5%**	27.1%	**27.5%**	27.0%

The effective tax rate in the third quarter of 2016 was 25.6% compared to 35.2% in the third quarter of 2015. The decrease in the effective tax rate was primarily attributable to:

- a decrease in the non-deductible fair value adjustment to the Trust Unit Liability;
- a decrease in certain other non-deductible items; partially offset by
- a prorated increase in current tax as a result of an increase in the Alberta statutory corporate income tax rate from 10% to 12% enacted in the second quarter of 2015.

The adjusted income tax rate(2) in the third quarter was 26.5% compared to 27.1% in the third quarter of 2015. The decrease in the adjusted income tax rate(2) was primarily attributable to:

- a decrease in certain non-deductible items; partially offset by
- an increase in current tax as a result of a prorated increase in the Alberta statutory corporate income tax rate in 2015.

The effective tax rate year-to-date was 32.2% compared to 36.6% for the same period in 2015. The decrease in the year-to-date effective tax rate was primarily attributable to:

- a decrease in deferred tax expense resulting from a prior year charge related to the re-measurement of deferred tax liabilities related to the increase in the Alberta statutory corporate income tax rate, as described above, net of an increase in deferred tax expense in the first quarter of 2016 as a result of the increase in New Brunswick statutory corporate income tax rate, as described below; partially offset by
- an increase in the non-deductible fair value adjustment to the Trust Unit Liability; and
- an increase in current tax as a result of a prorated increase in the Alberta statutory corporate income tax rate in 2015.

The adjusted income tax rate(2) year-to-date was 27.5% compared to 27.0% for the same period in 2015. The increase in the adjusted income tax rate(2) was primarily attributable to the prorated increase in current tax as a result of an increase in the Alberta statutory corporate income tax rate in 2015.

In the first quarter of 2016, the Government of New Brunswick announced a 2% increase in the provincial statutory corporate income tax rate from 12% to 14%. The Company recorded a charge of $3 million in the first quarter of 2016 and year-to-date related to the re-measurement of its deferred tax liabilities.

4. Reportable Operating Segments Results of Operations

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and 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 that are 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.

4.1 Retail Segment

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (16 weeks)**	2015 (16 weeks)	$ Change	% Change	**2016 (40 weeks)**	2015 (40 weeks)	$ Change	% Change
Sales	**$ 13,891**	$ 13,715	$ 176	1.3 %	**$ 34,539**	$ 33,863	$ 676	2.0 %
Gross profit	**3,718**	3,560	158	4.4 %	**9,305**	8,895	410	4.6 %
Adjusted gross profit(2)	**3,714**	3,560	154	4.3 %	**9,317**	8,903	414	4.7 %
Adjusted gross profit %(2)	**26.7%**	26.0%			**27.0%**	26.3%		
Adjusted EBITDA(2)	**$ 1,087**	$ 976	$ 111	11.4 %	**$ 2,742**	$ 2,529	$ 213	8.4 %
Adjusted EBITDA margin(2)	**7.8%**	7.1%			**7.9%**	7.5%		
Depreciation and amortization(i)	**$ 456**	$ 470	$ (14)	(3.0)%	**$ 1,157**	$ 1,198	$ (41)	(3.4)%

(i) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $164 million (2015 – $164 million) and $411 million (2015 – $412 million) of amortization of intangible assets acquired with Shoppers Drug Mart for the third quarter of 2016 and year-to-date basis, respectively.

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (16 weeks)**		2015 (16 weeks)		**2016 (40 weeks)**		2015 (40 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales	**Sales**	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 10,278**	**0.8%**	$ 10,178	1.3%	**$ 25,386**	**1.1%**	$ 25,041	1.7%
Drug retail	**3,613**	**2.8%**	3,537	4.9%	**9,153**	**4.2%**	8,822	4.0%
Pharmacy	**1,732**	**1.6%**	1,699	3.5%	**4,369**	**3.0%**	4,230	3.6%
Front Store	**1,881**	**3.9%**	1,838	6.2%	**4,784**	**5.3%**	4,592	4.4%

Overall Retail Segment Performance Adjusted EBITDA(2) improved by $111 million in the third quarter of 2016 and $213 million year-to-date. Excluding the impact of the consolidation of franchises, adjusted EBITDA(2) increased by $105 million in the third quarter of 2016 and $212 million year-to-date driven by higher sales, stable gross margins and lower SG&A. Incremental net synergies were also a contributor to year-to-date adjusted EBITDA(2).

Sales, adjusted gross profit(2), adjusted gross profit percentage(2) and adjusted EBITDA(2) in the third quarter of 2016 included the impacts of the consolidation of franchises, as set out in "Other Retail Business Matters".

Sales Retail segment sales in the third quarter of 2016 were $13,891 million, an increase of $176 million compared to the third quarter of 2015. Excluding the consolidation of franchises, Retail segment sales increased by $74 million primarily driven by the following factors:

- Food retail same-store sales growth was 1.4% (2015 –3.1%[5]) for the quarter, after excluding gas bar (0.6%). Food retail same-store sales also reflect the impact of retail promotional investments. Including gas bar, Food retail same-store sales growth was 0.8% (2015 – 1.3%).
    - The Company's Food retail average quarterly internal food price index declined and was lower than (2015 – higher than) the average quarterly national food price inflation of 0.2% (2015 – 3.8%), 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 modest;
    - Sales growth in pharmacy was flat; and
    - Sales growth in gas bar was flat.
- Drug retail same-store sales growth was 2.8% (2015 – 4.9%).
    - Same-store pharmacy sales growth was 1.6% (2015 – 3.5%);
        - the number of prescriptions dispensed increased by 2.9% (2015 – 4.2%). On a same-store basis, the number of prescriptions dispensed increased by 2.6% (2015 – 4.4%) and year-over-year, the average prescription value decreased by 0.8% (2015 – decreased by 0.2%).
    - Same-store front store sales growth was 3.9% (2015 – 6.2%), with growth in all front store categories.
- 44 food and drug stores were opened and 69 food and drug stores were closed in the 12 months ended October 8, 2016, resulting in a decrease in Retail net square footage of 0.2 million square feet, or 0.3%, primarily driven by the Company's store closure plan announced in 2015.

On a year-to-date basis, retail sales were $34,539 million, an increase of $676 million compared to the same period in 2015. Year-to-date Food retail sales of $25,386 million were higher by $345 million, or 1.4%. Drug retail sales of $9,153 million were higher by $331 million, or 3.8%. Year-to-date Food retail same-store sales growth was 1.5%, after excluding gas bar (0.4%). Including gas bar, Food retail same-store sales growth was 1.1% (2015 – 1.7%). Year-to-date Drug retail same-store sales growth was 4.2%, driven by same-store sales pharmacy sales growth of 3.0% (2015 – 3.6%) and same-store front store sales growth of 5.3% (2015 – 4.4%).

Adjusted Gross Profit[2] Adjusted gross profit[2] in the third quarter of 2016 was $3,714 million, an increase of $154 million compared to the third quarter of 2015. Adjusted gross profit percentage[2] of 26.7% increased by 70 basis points compared to the third quarter of 2015. Excluding the consolidation of franchises, the adjusted gross profit percentage[2] was 26.1%, an increase of 30 basis points compared to the third quarter of 2015. Food retail promotional investment drove margins lower, however Drug retail pharmacy margins improved and offset the impacts of promotional investments. Adjusted gross profit percentage[2] improved largely due to improvements in shrink compared to the third quarter of 2015.

Year-to-date adjusted gross profit[2] was $9,317 million compared to $8,903 million, an increase of $414 million compared to the same period in 2015 and adjusted gross profit percentage[2] was 27.0% compared to 26.3% in the same period in 2015. Excluding the consolidation of franchises, the adjusted gross profit percentage[2] was 26.4%, an increase of 20 basis points compared to the same period in 2015, primarily driven by the achievement of operational synergies and improvements in shrink, partially offset by lower Food retail margins due to promotional investments.

Adjusted EBITDA[2] Adjusted EBITDA[2] in the third quarter of 2016 was $1,087 million, an increase of $111 million, or 11.4%, compared to the third quarter of 2015 driven by the increase in adjusted gross profit[2] described above, partially offset by an increase in SG&A of $43 million. SG&A as a percentage of sales was 18.9%, an increase of 10 basis points compared to the third quarter of 2015. Excluding the consolidation of franchises, SG&A as a percentage of sales was 18.2%, an improvement of 50 basis points compared to the third quarter of 2015, driven by the following factors:

- the positive impact of the Company's store closure plan announced in 2015;
- favourable changes in the value of the Company's investments in its franchise business;
- favourable year-over-year foreign exchange impacts; and
- the favourable impact related to settlement of collective agreements in the third quarter of 2015.

Year-to-date adjusted EBITDA(2) was $2,742 million, compared to $2,529 million in the same period in 2015, an increase of $213 million, or 8.4%, driven by the increase in the year-to-date adjusted gross profit(2) described above, partially offset by an increase in SG&A of $201 million. SG&A as a percentage of sales was 19.0%, an increase of 20 basis points compared to the same period in 2015. Excluding the consolidation of franchises, SG&A as a percentage of sales, was 18.4%, an improvement of 30 basis points compared to the same period in 2015, driven by the following factors:

- the positive impact of the Company's store closure plan announced in 2015;
- favourable changes in the value of the Company's investments in its franchise business;
- favourable year-over-year foreign exchange impacts; and
- operational efficiencies in retail stores.

Depreciation and Amortization Depreciation and amortization in the third quarter of 2016 was $456 million, a decrease of $14 million compared to the third quarter of 2015. Excluding the impact of the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $164 million (2015 – $164 million), depreciation and amortization decreased by $14 million, primarily attributable to a change in the estimated useful life of certain equipment and fixtures in the second quarter of 2016.

Year-to-date depreciation and amortization was $1,157 million, compared to $1,198 million in the same period of 2015, a decrease of $41 million. Excluding the impact of the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $411 million (2015 – $412 million), depreciation and amortization decreased by $40 million, primarily attributable to a change in the estimated useful life of certain equipment and fixtures in the second quarter of 2016 and lower depreciation of older supply chain assets.

Other Retail Business Matters

QHR Corporation Subsequent to the end of the third quarter of 2016, the Company, through its wholly-owned subsidiary Shoppers Drug Mart, completed the acquisition of all of the issued and outstanding common shares of QHR Corporation ("QHR"), a publicly traded healthcare technology company. The shares of QHR were acquired for cash consideration of approximately $162 million. The Company has not yet finalized the purchase price allocation related to this acquisition.

Consolidation of Franchises The Company has more than 500 franchise food retail stores in its network. As of the end of the third quarter of 2016, 165 of these stores were consolidated for accounting purposes under a new, simplified franchise agreement ("Franchise Agreement") implemented in 2015.

The Company will convert franchises to the Franchise Agreement as existing agreements expire, at the end of which all franchises will be consolidated. The following table presents the franchises consolidated in the third quarter of 2016 and year-to-date, and the total impact of the consolidated franchises:

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars unless where otherwise indicated)	**2016** **(16 weeks)**	2015 (16 weeks)	**2016** **(40 weeks)**	2015 (40 weeks)
Number of Consolidated Franchise stores, beginning of period	**132**	16	**85**	—
Add: Net number of Consolidated Franchise stores in the period	**33**	27	**80**	43
Number of Consolidated Franchise stores, end of period	**165**	43	**165**	43
Sales	**$ 125**	$ 23	**$ 264**	$ 28
Gross Profit	**120**	21	**254**	26
Adjusted gross profit(2)	**120**	21	**254**	26
Adjusted EBITDA(2)	**—**	(6)	**(7)**	(8)
Depreciation and amortization	**7**	2	**15**	2
Net loss attributable to Non-Controlling Interest	**(7)**	(6)	**(21)**	(5)

The Company expects that the impact in 2016 of new and current consolidated franchises will be incremental revenue of approximately $350 million, an increase to adjusted EBITDA(2) of approximately $20 million and an increase in depreciation and amortization of approximately $20 million.

Retail Locations in Fort McMurray In the second quarter of 2016, 10 retail locations in Fort McMurray were impacted by a wildfire that caused an evacuation of the city. During the second quarter of 2016, the Company recognized a charge of $12 million related to inventory losses, site clean-up and restoration costs at these locations. During the third quarter of 2016, the Company received partial proceeds of $5 million from the insurance claim. The insurance claim remains in progress and further proceeds are expected to be recorded as the claim progresses.

The Company estimates the financial impact to the Company's year-to-date 2016 results from the temporary closure of these retail locations as follows: a decrease in sales of approximately $27 million and a decrease in adjusted EBITDA(2) of approximately $7 million. The Company maintains business interruption insurance and expects that certain losses will be recoverable under this insurance coverage.

Gas Bar Network In the second quarter of 2016, the Company began engaging with potential buyers for the sale of its gas bar operations. The gas bar network is comprised of approximately 200 retail fuel sites. On an annual basis, the gas bar operations sell approximately 1,700 million litres of gas and generate sales of approximately $1,600 million.

Restructuring and Other Related costs In the second quarter of 2016 and year-to-date, the Company recorded an additional charge related to store closures of approximately $43 million and $44 million, respectively. This amount was primarily related to the closure of the remaining Joe Fresh retail location in the U.S.

Drug Retail Ancillary Assets In 2015, the Company began actively marketing the sale of certain assets of the Shoppers Drug Mart ancillary healthcare business and recorded asset impairments on these assets and other related restructuring charges. In the second quarter of 2016, the Company signed agreements for the sale of a portion of these assets. The Company expects the annualized impact of the divestiture to be a decrease in sales of approximately $129 million and an increase in adjusted EBITDA(2) of $8 million.

In the second quarter of 2016, the Company ceased actively marketing the remaining assets and restructured those assets as part of ongoing operations. As a result, the Company recorded a charge of $4 million related to inventory impairment and reversed $8 million of previous asset impairments and other related restructuring charges in the second quarter and year-to-date.

4.2 Financial Services Segment[(4)]

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (16 weeks)**	2015 (16 weeks)	$ Change	% Change	**2016 (40 weeks)**	2015 (40 weeks)	$ Change	% Change
Revenue	**$ 229**	$ 211	$ 18	8.5%	**$ 650**	$ 609	$ 41	6.7%
Adjusted EBITDA[(2)]	**44**	39	5	12.8%	**132**	122	10	8.2%
Earnings before income taxes	**28**	23	5	21.7%	**85**	73	12	16.4%

(millions of Canadian dollars except where otherwise indicated)	**As at October 8, 2016**	As at October 10, 2015	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,730**	$ 2,604	$ 126	4.8%
Credit card receivables	**2,769**	2,663	106	4.0%
Allowance for credit card receivables	**53**	51	2	3.9%
Annualized yield on average quarterly gross credit card receivables	**13.6%**	13.6%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.5%**	4.4%		

Revenue Revenue in the third quarter of 2016 was $229 million, an increase of $18 million compared to the third quarter of 2015, primarily driven by:

- higher interest and net interchange income attributable to growth in the credit card portfolio; and
- higher Mobile Shop sales.

Year-to-date revenue was $650 million, an increase of $41 million, compared to the same period in 2015, primarily driven by:

- higher interest income attributable to growth in credit card receivables;
- higher interchange income from higher credit card transaction volumes, partially offset by an industry-wide reduction in interchange rates by MasterCard® International Incorporated effective in the second quarter of 2015; and
- higher Mobile Shop sales.

Adjusted EBITDA[(2)] Adjusted EBITDA[(2)] in the third quarter of 2016 was $44 million, an increase of $5 million compared to the third quarter of 2015, primarily driven by:

- revenue growth as described above; partially offset by
- higher costs associated with higher transaction volumes in the Financial Services loyalty program; and
- higher operating costs and credit losses as a result of an increase in the active customer base.

Year-to-date adjusted EBITDA[(2)] was $132 million, an increase of $10 million compared to the same period in 2015, primarily driven by:

- revenue growth as described above; and
- lower marketing and acquisition costs; partially offset by
- higher costs associated with higher transaction volumes in the Financial Services loyalty program; and
- higher operating costs and credit losses as a result of an increase in the active customer base.

Earnings before income taxes Earnings before income taxes in the third quarter of 2016 were $28 million, an increase of $5 million compared to the third quarter of 2015, primarily driven by the increase in adjusted EBITDA[(2)] as described above.

Year-to-date earnings before income taxes were $85 million, an increase of $12 million compared to the same period in 2015, primarily driven by the increase in adjusted EBITDA[(2)] as described above and lower net interest expenses.

Credit Card Receivables As at October 8, 2016, credit card receivables were $2,769 million, an increase of $106 million compared to October 10, 2015. This increase was primarily driven by growth in the active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. As at October 8, 2016, the allowance for credit card receivables was $53 million, an increase of $2 million compared to October 10, 2015 due to the growth in the credit card receivables portfolio.

4.3 Choice Properties Segment[4]

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (16 weeks)	2015 (16 weeks)	$ Change	% Change	2016 (40 weeks)	2015 (40 weeks)	$ Change	% Change
Revenue	**$ 196**	$ 187	$ 9	4.8 %	**$ 586**	$ 552	$ 34	6.2%
Adjusted EBITDA[2]	**186**	136	50	36.8 %	**433**	378	55	14.6%
Net interest expense and other financing charges	**(28)**	308	(336)	(109.1)%	**911**	572	339	59.3%
Adjusted funds from operations[2]	**82**	79	3	3.8 %	**248**	231	17	7.4%

Revenue Revenue in the third quarter of 2016 was $196 million, an increase of $9 million compared to the third quarter of 2015 and included $173 million (2015 – $167 million) generated from tenants within the Retail segment.

Year-to-date revenue was $586 million, an increase of $34 million compared to the same period in 2015 and included $520 million (2015 – $495 million) generated from tenants within the Retail segment.

The increase in revenue in the third quarter of 2016 and year-to-date was primarily driven by:

- an increase in base rent and recoveries of property tax and operating costs from existing properties; and
- revenue from properties acquired in 2015 and 2016.

Adjusted EBITDA[2] Adjusted EBITDA[2] in the third quarter of 2016 was $186 million, an increase of $50 million compared to the third quarter of 2015.

Year-to-date adjusted EBITDA[2] was $433 million, an increase of $55 million compared to the same period in 2015.

The increase in adjusted EBITDA[2] in the third quarter of 2016 and year-to-date was primarily driven by:

- the change in fair value adjustment on investment properties; and
- an increase in base rent and net recoveries of property tax and operating costs from existing properties.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges in the third quarter of 2016 resulted in income of $28 million compared to a charge of $308 million in the third quarter of 2015, a decrease of $336 million. The decrease in net interest expense and other financing charges was primarily driven by the change in fair value adjustment on Class B Limited Partnership units.

Year-to-date net interest expense and other financing charges were $911 million, an increase of $339 million compared to the same period in 2015, primarily driven by:

- the change in fair value adjustment on Class B Limited Partnership units; and
- higher interest expense due to the issuance of senior unsecured debentures in 2015 and 2016.

Adjusted Funds from Operations[2] Adjusted funds from operations[2] in the third quarter of 2016 were $82 million, an increase of $3 million compared to the third quarter of 2015.

Year-to-date adjusted funds from operations[2] were $248 million, an increase of $17 million compared to the same period in 2015.

The increase in adjusted funds from operations[2] in the third quarter of 2016 and year-to-date was primarily driven by higher contributions from property operations partially offset by increased spending in operating capital.

Other Matters In the third quarter of 2016, Choice Properties acquired one investment property from a third-party for a purchase price of approximately $20 million, excluding acquisition costs, which was fully settled in cash.

5. Liquidity and Capital Resources

5.1 Cash Flows

Major Cash Flow Components

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016** (16 weeks)	2015 (16 weeks)	$ Change	% Change	**2016** (40 weeks)	2015 (40 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 1,210**	$ 1,285	$ (75)	(5.8)%	**$ 1,018**	$ 999	$ 19	1.9 %
Cash flows from (used in):								
Operating activities	**1,112**	1,068	44	4.1 %	**2,658**	2,515	143	5.7 %
Investing activities	**(471)**	(553)	82	14.8 %	**(761)**	(1,065)	304	28.5 %
Financing activities	**(542)**	(530)	(12)	(2.3)%	**(1,597)**	(1,184)	(413)	(34.9)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	**3**	5	(2)	(40.0)%	**(6)**	10	(16)	(160.0)%
Cash and cash equivalents, end of period	**$ 1,312**	$ 1,275	$ 37	2.9 %	**$ 1,312**	$ 1,275	$ 37	2.9 %

Cash Flows from Operating Activities Cash flows from operating activities in the third quarter of 2016 were $1,112 million, an increase of $44 million compared to the third quarter of 2015 primarily driven by:

- higher cash earnings; partially offset by
- a change in non-cash working capital driven by an increase in inventory and a reduction in provisions, partially offset by an increase in trade payables and other liabilities; and
- an increase in income taxes paid.

Year-to-date cash flows from operating activities were $2,658 million in 2016, an increase of $143 million compared to the same period in 2015. The increase was primarily driven by:

- higher cash earnings;
- an increase in collection on credit card receivables, driven by the growth in active customer base as discussed in the Financial Services segment; partially offset by
- a change in non-cash working capital driven by a reduction in trade payables and other liabilities and provisions, partially offset by the decrease in accounts receivable and inventories; and
- an increase in income taxes paid.

Cash Flows used in Investing Activities Cash flows used in investing activities in the third quarter of 2016 were $471 million, a decrease of $82 million compared to the third quarter of 2015, primarily due to security deposits in the prior year that were used to fund the repayment of *Eagle* notes maturing in the fourth quarter of 2015 partially offset by an increase in short term investments.

Year-to-date cash flows used in investing activities were $761 million, a decrease of $304 million compared to the same period in 2015, primarily due to security deposits in the prior year that were used to fund the repayment of *Eagle* notes maturing in the fourth quarter of 2015 and lower net capital investments partially offset by an increase in short term investments.

Capital Investments and Store Activity

As at or for the periods ended October 8, 2016 and October 10, 2015	**2016 (40 weeks)**	2015 (40 weeks)	% Change
Capital investments (millions of Canadian dollars)	**$ 754**	$ 808	(6.7)%
Corporate square footage (in millions)	**35.8**	36.5	(1.9)%
Franchise square footage (in millions)	**15.9**	15.7	1.3 %
Associate-owned drug store square footage (in millions)	**18.1**	17.8	1.7 %
Total retail square footage (in millions)	**69.8**	70.0	(0.3)%
Number of corporate stores	**566**	604	(6.3)%
Number of franchise stores	**525**	529	(0.8)%
Number of Associate-owned drug stores	**1,324**	1,307	1.3 %
Total number of stores	**2,415**	2,440	(1.0)%
Percentage of corporate real estate owned	**72%**	72%	
Percentage of franchise real estate owned	**47%**	46%	
Percentage of Associate-owned drug store real estate owned	**1%**	2%	
Average store size (square feet)			
Corporate	**63,300**	60,400	4.8 %
Franchise	**30,300**	29,700	2.0 %
Associate-owned drug store	**13,700**	13,600	0.7 %

Cash Flows used in Financing Activities Cash flows used in financing activities were $542 million in the third quarter of 2016, an increase of $12 million compared to the third quarter of 2015. The increase was primarily driven by higher repurchases of common shares for cancellation, an increase in President's Choice Bank's ("PC Bank's) co-ownership interest held with the Other Independent Securitization Trusts in 2015 and lower net issuance of long term debt partially offset by the redemption of capital securities in 2015.

Year-to-date cash flows used in financing activities were $1,597 million, an increase of $413 million compared to the same period in 2015. The increase was primarily driven by higher repurchases of common shares for cancellation and a decrease in PC Bank's co-ownership interest held with the Other Independent Securitization Trusts, partially offset by lower net repayments of long term debt. In 2015, cash flow from financing activities also included proceeds from the issuance of preferred shares offset by the redemption of capital securities. The Company's significant long term debt transactions are set out in Section "5.2 Liquidity and Capital Structure".

Free Cash Flow(2)

For the periods ended October 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (16 weeks)**	2015 (16 weeks)	$ Change	% Change	**2016 (40 weeks)**	2015 (40 weeks)	$ Change	% Change
Free cash flow(2)	**$ 564**	$ 578	$ (14)	(2.4)%	**$ 1,508**	$ 1,311	$ 197	15.0%

Free cash flow(2) was $564 million in the third quarter of 2016, a decrease of $14 million compared to the third quarter of 2015, primarily driven by higher interest payments and higher net capital investments partially offset by higher cash flows from operating activities as described above.

Year-to-date free cash flow(2) was $1,508 million in 2016, an increase of $197 million compared to the same period in 2015, primarily driven by higher cash flows from operating activities as described above and lower 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 manages its capital structure on a segmented basis to ensure that each of the reportable operating segments is employing a capital structure that is appropriate for the industry in which it operates. The following table presents total debt, as monitored by management, by reportable operating segments:

					As at October 8, 2016					As at October 10, 2015					As at January 2, 2016
(millions of Canadian dollars)	**Retail**	**Financial Services[4]**	**Choice Properties[4]**	**Consolidation & Eliminations**	**Total**	Retail	Financial Services[4]	Choice Properties[4]	Consolidation & Eliminations	Total	Retail	Financial Services[4]	Choice Properties[4]	Consolidation & Eliminations	Total
Bank indebtedness	**$ 257**	**$ —**	**$ —**	**$ —**	**$ 257**	$ 243	$ —	$ —	$ —	$ 243	$ 143	$ —	$ —	$ —	$ 143
Short term debt	**—**	**475**	**—**	**—**	**$ 475**	—	580	—	—	580	—	550	—	—	550
Long term debt due within one year	**56**	**43**	**202**	**—**	**$ 301**	577	464	303	—	1,344	584	112	302	—	998
Long term debt[i]	**5,977**	**1,445**	**3,046**	**(55)**	**$10,413**	5,908	1,220	2,632	—	9,760	5,968	1,347	2,698	—	10,013
Certain other liabilities	**31**	**—**	**—**	**—**	**$ 31**	31	—	—	—	31	30	—	—	—	30
Total debt	**$6,321**	**$ 1,963**	**$ 3,248**	**$ (55)**	**$11,477**	$6,759	$ 2,264	$ 2,935	$ —	$11,958	$6,725	$ 2,009	$ 3,000	$ —	$ 11,591

(i) Consolidation and Eliminations includes repayments of $55 million (October 10, 2015 – nil; January 2, 2016 – nil) made by Choice Properties on its Committed Credit Facility.

Retail The Company manages its capital structure with the objective of maintaining Retail segment credit metrics consistent with those of investment grade retailers. The Company monitors the Retail segment's debt to rolling year retail adjusted EBITDA[2] ratio as a measure of the leverage being employed.

	As at October 8, 2016	As at October 10, 2015	As at January 2, 2016
Retail debt to rolling year retail adjusted EBITDA[2]	**1.8x**	2.0x	2.0x

The Retail segment debt to rolling year retail adjusted EBITDA[2] ratio as at October 8, 2016 decreased compared to October 10, 2015 and January 2, 2016 primarily as a result of adjusted EBITDA[2] growth and repayment of $525 million MTNs that matured in the second quarter of 2016.

Choice Properties Choice Properties manages its capital structure with the objective of maintaining credit metrics consistent with those of investment grade real estate investment trusts ("REITs"). Choice Properties monitors metrics relevant to the REIT industry including targeting an appropriate debt to total assets ratio.

The Company and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at October 8, 2016 and throughout 2016, the Company and Choice Properties were in compliance with their respective covenants.

President's Choice Bank PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by the Office of the Superintendent of Financial Institutions ("OSFI"). As at the end of the third quarter of 2016, PC Bank has met all applicable regulatory requirements.

Components of Total Debt

Debentures and Medium Term Notes The following table summarizes the debentures and MTNs issued during the periods ended as indicated:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**October 8, 2016 (40 weeks) Principal Amount**	October 10, 2015 (40 weeks) Principal Amount
Choice Properties senior unsecured debentures				
– Series G(i)	3.20%	March 7, 2023	**$ 250**	$ —
– Series H(i)	5.27%	March 7, 2046	**100**	—
– Series E	2.30%	September 14, 2020	**—**	250
Total Debentures and Medium Term Notes issued			**$ 350**	$ 250

(i) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus Supplement filed in the fourth quarter of 2015.

There were no issuances in the third quarters of 2016 and 2015.

The following table summarizes the debentures and MTNs repaid during the periods ended as indicated:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**October 8, 2016 (40 weeks) Principal Amount**	October 10, 2015 (40 weeks) Principal Amount
Loblaw Companies Limited Notes	7.10%	June 1, 2016	**$ 300**	$ —
Shoppers Drug Mart Notes	2.01%	May 24, 2016	**225**	—
Choice Properties senior unsecured debentures – Series 5	3.00%	March 7, 2016	**300**	—
Total Debentures and Medium Term Notes repaid			**$ 825**	$ —

There were no debentures or MTNs repaid in the third quarters of 2016 and 2015.

Unsecured Term Loan Facilities In the third quarter of 2015 and year-to-date, the Company recorded net repayments of $312 million and $931 million on the unsecured term loan facilities.

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 the 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 8, 2016**	As at October 10, 2015	As at January 2, 2016
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust®*	**$ 650**	$ 1,000	$ 650
Securitized to Other Independent Securitization Trusts	**475**	580	550
Total securitized to independent securitization trusts	**$ 1,125**	$ 1,580	$ 1,200

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 8, 2016 and throughout 2016.

Independent Funding Trusts In the second quarter of 2016, the Company amended the committed credit facility agreement associated with its independent funding trusts to increase the size of the facility to $700 million and extended the maturity date to June 10, 2019, with all other terms and conditions remaining substantially the same.

Committed Credit Facilities The components of the committed lines of credit as at October 8, 2016, October 10, 2015 and January 2, 2016 were as follows:

	As at October 8, 2016		As at October 10, 2015		As at January 2, 2016	
(millions of Canadian dollars)	**Available Credit**	**Drawn**	Available Credit	Drawn	Available Credit	Drawn
Loblaw's Committed Credit Facility	**$ 1,000**	**$ —**	$ 1,000	$ —	$ 1,000	$ —
Choice Properties Committed Credit Facility	**500**	**148**	500	133	500	—
Total Committed Lines of Credit	**$ 1,500**	**$ 148**	$ 1,500	$ 133	$ 1,500	$ —

In the second quarter of 2016, the Company amended its Credit Facility agreement to extend the maturity date to June 10, 2021, with all other terms and conditions remaining substantially the same. In the third quarter of 2016, Choice Properties extended the maturity date of its facility to July 5, 2021, with all other terms and conditions remaining substantially the same.

5.3 Financial Condition

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

	As at October 8, 2016	As at October 10, 2015	As at January 2, 2016
Rolling year adjusted return on equity(2)	**12.6%**	11.4%	11.1%
Rolling year adjusted return on capital(2)(i)	**8.5%**	7.7%	7.6%

(i) Capital for the purposes of this calculation is defined as total debt, plus equity attributable to shareholders of the Company, less cash and cash equivalents, and short term investments.

The rolling year adjusted return on equity(2) as at October 8, 2016 increased compared to October 10, 2015 and January 2, 2016, primarily due to higher adjusted net earnings and share repurchases. The rolling year adjusted return on capital(2) as at October 8, 2016 increased compared to October 10, 2015 and January 2, 2016, primarily due to the factors noted above, as well as debt reduction in the last twelve months.

5.4 Credit Ratings

In the second quarter of 2016, Standard and Poor's reaffirmed the credit ratings for the Company and Choice Properties. In the first quarter of 2016, Dominion Bond Rating Service reaffirmed the credit ratings and changed the trends to Positive from Stable for the Company and Choice Properties.

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	Positive	BBB	Stable
Medium term notes	BBB	Positive	BBB	n/a
Other notes and debentures	BBB	Positive	BBB	n/a
Second Preferred Shares, Series B	Pfd-3	Positive	P-3 (high)	n/a

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	Positive	BBB	Stable
Senior unsecured debentures	BBB	Positive	BBB	n/a

5.5 Share Capital

Second Preferred Share Capital (authorized – unlimited) In 2015, the Company issued 9.0 million 5.30% non–voting Second Preferred Shares, Series B and redeemed all of the outstanding 9.0 million 5.95% non–voting Second Preferred Shares, Series A. The Second Preferred Shares, Series B have a face value of $225 million and are presented as a component of equity in the condensed consolidated balance sheet in the amount of $221 million, net of $4 million of after–tax issuance costs.

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 8, 2016 (16 weeks)		October 10, 2015 (16 weeks)		**October 8, 2016 (40 weeks)**		October 10, 2015 (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	**405,537,834**	**$ 7,798**	412,386,285	$ 7,878	**409,985,226**	**$ 7,861**	412,480,891	$ 7,860
Issued for settlement of stock options	**114,765**	**6**	565,499	24	**1,029,373**	**46**	1,341,381	59
Purchased and cancelled	**(2,080,000)**	**(40)**	(546,351)	(10)	**(7,442,000)**	**(143)**	(1,416,839)	(27)
Issued and outstanding, end of period	**403,572,599**	**$ 7,764**	412,405,433	$ 7,892	**403,572,599**	**$ 7,764**	412,405,433	$ 7,892
Shares held in trust, beginning of period	**(1,159,865)**	**$ (22)**	(789,643)	$ (12)	**(643,452)**	**$ (10)**	(555,046)	$ (3)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	(328,041)	(6)	**(1,250,000)**	**(24)**	(871,894)	(17)
Released for settlement of RSUs and PSUs	**20,619**	**—**	42,481	—	**754,206**	**12**	351,737	2
Shares held in trust, end of period	**(1,139,246)**	**$ (22)**	(1,075,203)	$ (18)	**(1,139,246)**	**$ (22)**	(1,075,203)	$ (18)
Issued and outstanding, net of shares held in trust, end of period	**402,433,353**	**$ 7,742**	411,330,230	$ 7,874	**402,433,353**	**$ 7,742**	411,330,230	$ 7,874
Weighted average outstanding, net of shares held in trust	**403,711,134**		411,505,687		**406,016,530**		411,785,643	

Normal Course Issuer Bid Activity under the Company's Normal Course Issuer Bid ("NCIB") during the periods was as follows:

(millions of Canadian dollars except where otherwise indicated)	October 8, 2016 (16 weeks)	October 10, 2015 (16 weeks)	October 8, 2016 (40 weeks)	October 10, 2015 (40 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**2,080,000**	546,351	**7,442,000**	1,416,839
Cash consideration paid	**$ 145**	$ 39	**$ 508**	$ 94
Premium charged to Retained Earnings	**105**	29	**365**	67
Reduction in Common Share Capital	**40**	10	**143**	27
Common shares repurchased under the NCIB and held in trust (number of shares)	**—**	328,041	**1,250,000**	871,894
Cash consideration paid	**$ —**	$ 22	**$ 90**	$ 57
Premium charged to Retained Earnings	**—**	16	**66**	40
Reduction in Common Share Capital	**—**	6	**24**	17

In the second quarter of 2016, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 21,401,867 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.

Dividends The Company's cash dividends declared for the periods are summarized as follows:

	October 8, 2016(i) (16 weeks)	October 10, 2015 (16 weeks)	October 8, 2016 (40 weeks)	October 10, 2015 (40 weeks)
Dividends declared per share ($):				
Common Share	**$ 0.26**	$ 0.25	**$ 0.77**	$ 0.75
Second Preferred Share, Series A	**$ —**	$ —	**$ —**	$ 0.74
Second Preferred Share, Series B	**$ 0.33**	$ 0.41	**$ 0.99**	$ 0.41

(i) The third quarter dividends for 2016 of $0.26 per share declared on common shares were paid on October 1, 2016. The third quarter dividends for 2016 of $0.33 per share declared on Second Preferred Shares, Series B were paid on September 30, 2016.

(millions of Canadian dollars)	October 8, 2016 (16 weeks)	October 10, 2015 (16 weeks)	October 8, 2016 (40 weeks)	October 10, 2015 (40 weeks)
Dividends declared:				
Common Share	**$ 104**	$ 103	**$ 312**	$ 307
Second Preferred Share, Series A(i)	**—**	1	**—**	8
Second Preferred Share, Series B	**3**	4	**9**	4
Total dividends declared	**$ 107**	$ 108	**$ 321**	$ 319

(i) For financial statement purposes, Second Preferred Shares, Series A dividends of $1 million in the third quarter of 2015 and $8 million 2015 year-to-date were recognized on an accrual basis and included as a component of net interest expense and other financing charges.

Subsequent to the end of the third quarter of 2016, the Board of Directors declared a quarterly dividend of $0.26 per common share, payable on December 30, 2016 to shareholders of record on December 15, 2016 and a dividend on the Second Preferred Shares, Series B of $0.33 per share payable on December 31, 2016 to shareholders of record on December 15, 2016.

5.6 Off-Balance Sheet Arrangements

The Company uses off-balance sheet arrangements including letters of credit, guarantees and cash collateralization in connection with certain obligations. There were no significant changes to the Company's off-balance sheet arrangements during 2016. For a discussion of the Company's significant off-balance sheet arrangements see Section 7.7 "Off-Balance Sheet Arrangements" of the Company's 2015 Annual Report.

6. Financial Derivative Instruments

The Company uses derivative instruments to offset certain of its financial risks. The Company uses bond forwards and interest rate swaps, to manage its anticipated exposure to fluctuations in interest rates on future debt issuances. The Company did not enter into any significant bond forwards or interest rate swaps during 2016.

The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations. For further details on the impact of these instruments in 2016 see Section 12 "Non-GAAP Financial Measures" of the MD&A.

7. Results by Quarter

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 2016 and 2015 were 52 weeks, and fiscal year 2014 was 53 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.

Summary of Consolidated Quarterly Results

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:

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2016	**2015**	2016	2015	2016	2015	2015	2014
(millions of Canadian dollars except where otherwise indicated)	**(16 weeks)**	**(16 weeks)**	(12 weeks)	(12 weeks)	(12 weeks)	(12 weeks)	(12 weeks)	(13 weeks)
Revenue	**$ 14,143**	**$ 13,946**	$ 10,731	$ 10,535	$ 10,381	$10,048	$ 10,865	$ 11,413
Net earnings available to common shareholders of the Company	**419**	**166**	158	185	193	146	128	247
Adjusted net earnings available to common shareholders of the Company(2)	**512**	**408**	412	350	338	301	363	396
Net earnings per common share:								
Basic ($)	**$ 1.04**	**$ 0.40**	$ 0.39	$ 0.45	$ 0.47	$ 0.35	$ 0.31	$ 0.60
Diluted ($)	**1.03**	**0.40**	0.39	0.44	0.47	0.35	0.31	0.59
Adjusted net earnings per common share(2):								
Basic ($)	**$ 1.27**	**$ 0.99**	$ 1.01	$ 0.85	$ 0.83	$ 0.73	$ 0.88	$ 0.96
Diluted ($)	**1.26**	**0.98**	1.01	0.84	0.82	0.72	0.87	0.95
Average national food price inflation (as measured by CPI)	**0.2%**	**3.8%**	1.8%	3.9%	4.3%	4.6%	4.1%	3.5%
Food retail same-store sales growth	**0.8%**	**1.3%**	0.4%	2.1%	2.0%	2.0%	2.4%	2.4%
Drug retail same-store sales growth	**2.8%**	**4.9%**	4.0%	3.8%	6.3%	3.1%	5.0%	3.8%

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

Over the past eight quarters, net retail square footage decreased by 0.1 million square feet to 69.8 million square feet, primarily driven by the Company's store closure plans announced in the second quarter of 2015, partially offset by new store openings.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share Adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share for the last eight quarters were impacted by the following factors:

- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- the 53rd week in the fourth quarter of 2014; and
- acquisition-related net synergies.

Net earnings available to common shareholders of the Company and diluted net earnings per common share for the last eight quarters were impacted by the items described above and the impact of the significant items set out in Section 12 "Non-GAAP Financial Measures" of the MD&A, primarily due to the following significant items:

- the impairment of Drug retail ancillary assets held for sale;
- restructuring and other related charges;
- the modifications to the fee arrangements with franchisees of certain franchise banners;
- the transition of stores to more cost effective and efficient labour agreements; and
- the change in fair value adjustment to Trust Unit Liability.

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 2016 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

9. Enterprise Risks and Risk Management

A detailed full set of risks inherent in the Company's business are included in the Company's AIF for the year ended January 2, 2016 and the Company's MD&A in the Company's 2015 Annual Report, which are hereby incorporated by reference. The Company's 2015 Annual Report and AIF are available online on www.sedar.com. Those risks and risk management strategies remain unchanged.

10. Accounting Standards

Presentation of Financial Statements The Company implemented the amendments to IAS 1, "Presentation of Financial Statements", in the first quarter of 2016, with no significant impact on the Company's unaudited interim period condensed consolidated financial statements.

Income Taxes The Company is awaiting final publication of the IFRS Interpretations Committee's agenda decision related to the expected manner of recovery of indefinite life intangible assets when measuring deferred income taxes in accordance with IAS 12, "Income Taxes". The Company expects that the Committee will finalize and publish the agenda decision in the upcoming weeks. Following publication of the Committee's agenda decision, the Company will implement this guidance in subsequent financial statements on a retrospective basis as an accounting policy change in accordance with IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors". Although the Company is still assessing the impact of the change in accounting policy on its consolidated financial statements, it expects an increase in goodwill and deferred income tax liabilities and an impact to prior year net earnings related to the re-measurement of deferred income tax liabilities as a result of the Alberta statutory corporate income tax rate change in 2015.

10.1 Significant Accounting Policies

Fixed Assets In the second quarter of 2016, the Company reassessed and revised the useful life of certain classes of equipment and fixtures from eight to ten years. This revision represents a change in estimate which will result in a current year reduction of depreciation and amortization expense, related to these assets, of approximately $66 million compared to 2015.

11. Outlook(3)

Loblaw remains focused on its strategic framework, 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 returning capital to shareholders. In 2016, the Company expects to:

- deliver positive same-store sales and stable gross margin in its Retail segment in a highly competitive grocery market and with continued negative pressure from healthcare reform;
- grow adjusted net earnings;
- invest approximately $1.3 billion in capital expenditures, including $1.0 billion in its Retail segment; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

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 diluted net earnings per common share, free cash flow, retail debt to rolling year retail adjusted EBITDA, rolling year adjusted return on equity, 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 these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing underlying consolidated and segment 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 The following table reconciles the Retail segment adjusted gross profit to Retail segment gross profit. 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 8, 2016 and October 10, 2015 (millions of Canadian dollars)	**2016** **(16 weeks)**	2015 (16 weeks)	**2016** **(40 weeks)**	2015 (40 weeks)
Retail segment gross profit	**$ 3,718**	$ 3,560	**$ 9,305**	$ 8,895
Add impact of the following:				
Charges related to retail locations in Fort McMurray, net of recoveries	**(4)**	—	**5**	—
Net impairment reversals related to Drug retail ancillary assets	**—**	—	**4**	—
Restructuring and other related costs	**—**	—	**3**	—
Charge related to apparel inventory	**—**	—	**—**	8
Retail segment adjusted gross profit	**$ 3,714**	$ 3,560	**$ 9,317**	$ 8,903

Charges related to retail locations in Fort McMurray, net of recoveries In the second quarter of 2016, 10 retail locations in Fort McMurray were impacted by the wildfire that caused the evacuation of the city. The Company recognized charges related to the inventory losses, site clean-up and other restoration costs as set out in Section "4.1 Other Retail Business Matters". During the third quarter of 2016, the Company received partial proceeds of $5 million from the insurance claim. The insurance claim remains in progress and further proceeds are expected to be recorded as the claim progresses.

Net impairment reversals related to Drug retail ancillary assets In the second quarter of 2016, the Company ceased actively marketing the remaining assets in certain Drug retail ancillary operations that were previously marketed for sale, as set out in Section "4.1 Other Retail Business Matters".

Restructuring and other related costs The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing.

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.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin The following tables reconcile earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("EBITDA"), adjusted EBITDA and adjusted operating income to operating income, which is reconciled to GAAP net earnings measures reported in the unaudited interim period condensed consolidated statements of earnings for the periods ended October 8, 2016 and October 10, 2015. The Company believes that adjusted EBITDA is useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

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

					2016 (16 weeks)					2015 (16 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services(4)**	**Choice Properties(4)**	**Consolidation and Eliminations**	**Consolidated**	Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					**$ 422**					$ 170
Add (deduct) impact of the following:										
Non-Controlling Interests					**(7)**					(6)
Net interest expense and other financing charges					**132**					205
Income taxes					**143**					89
Operating income	**$ 642**	**$ 41**	**$ 185**	**$ (178)**	**$ 690**	$ 419	$ 37	$ 135	$ (133)	$ 458
Depreciation and amortization	**456**	**3**	**1**	**4**	**464**	470	2	1	4	477
EBITDA	**$1,098**	**$ 44**	**$ 186**	**$ (174)**	**$ 1,154**	$ 889	$ 39	$ 136	$ (129)	$ 935
Operating income	**$ 642**	**$ 41**	**$ 185**	**$ (178)**	**$ 690**	$ 419	$ 37	$ 135	$ (133)	$ 458
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**164**	**—**	**—**	**—**	**164**	164	—	—	—	164
Restructuring and other related costs	**—**	**—**	**—**	**—**	**—**	95	—	—	—	95
Charges related to retail locations in Fort McMurray, net of recoveries	**(5)**	**—**	**—**	**—**	**(5)**	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**(9)**	**—**	**—**	**—**	**(9)**	(12)	—	—	—	(12)
Fixed asset and other related impairments, net of recoveries	**3**	**—**	**—**	**—**	**3**	2	—	—	—	2
Pension annuities and buy-outs	**—**	**—**	**—**	**—**	**—**	2	—	—	—	2
Adjusted operating income	**$ 795**	**$ 41**	**$ 185**	**$ (178)**	**$ 843**	$ 670	$ 37	$ 135	$ (133)	$ 709
Depreciation and amortization	**456**	**3**	**1**	**4**	**464**	470	2	1	4	477
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(164)**	**—**	**—**	**—**	**(164)**	(164)	—	—	—	(164)
Adjusted EBITDA	**$1,087**	**$ 44**	**$ 186**	**$ (174)**	**$ 1,143**	$ 976	$ 39	$ 136	$ (129)	$ 1,022

(millions of Canadian dollars)	2016 (40 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations	Consolidated	2015 (40 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					**$ 779**					$ 501
Add (deduct) impact of the following:										
Non-Controlling Interests					**(21)**					(5)
Net interest expense and other financing charges					**525**					503
Income taxes					**360**					286
Operating income	**$ 1,510**	**$ 123**	**$ 432**	**$ (422)**	**$ 1,643**	$ 1,164	$ 115	$ 377	$ (371)	$ 1,285
Depreciation and amortization	**1,157**	**9**	**1**	**11**	**1,178**	1,198	7	1	10	1,216
EBITDA	**$ 2,667**	**$ 132**	**$ 433**	**$ (411)**	**$ 2,821**	$ 2,362	$ 122	$ 378	$ (361)	$ 2,501
Operating income	**$ 1,510**	**$ 123**	**$ 432**	**$ (422)**	**$ 1,643**	$ 1,164	$ 115	$ 377	$ (371)	$ 1,285
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**411**	**—**	**—**	**—**	**411**	412	—	—	—	412
Restructuring and other related costs	**44**	**—**	**—**	**—**	**44**	161	—	—	—	161
Fair value adjustment on fuel and foreign currency contracts	**11**	**—**	**—**	**—**	**11**	(15)	—	—	—	(15)
Charges related to retail locations in Fort McMurray, net of recoveries	**7**	**—**	**—**	**—**	**7**	—	—	—	—	—
Prior year tax assessment	**10**	**—**	**—**	**—**	**10**	—	—	—	—	—
Net impairment reversals related to Drug retail ancillary assets	**(4)**	**—**	**—**	**—**	**(4)**	—	—	—	—	—
Fixed asset and other related impairments, net of recoveries	**5**	**—**	**—**	**—**	**5**	9	—	—	—	9
Pension annuities and buy-outs	**2**	**—**	**—**	**—**	**2**	2	—	—	—	2
Charge related to apparel inventory	**—**	**—**	**—**	**—**	**—**	8	—	—	—	8
Shoppers Drug Mart acquisition-related cost, net of impact from divestitures	—	—	—	—	—	2	—	—	—	2
Adjusted operating income	**$ 1,996**	**$ 123**	**$ 432**	**$ (422)**	**$ 2,129**	$ 1,743	$ 115	$ 377	$ (371)	$ 1,864
Depreciation and amortization	**1,157**	**9**	**1**	**11**	**1,178**	1,198	7	1	10	1,216
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(411)**	**—**	**—**	**—**	**(411)**	(412)	—	—	—	(412)
Adjusted EBITDA	**$ 2,742**	**$ 132**	**$ 433**	**$ (411)**	**$ 2,896**	$ 2,529	$ 122	$ 378	$ (361)	$ 2,668

In addition to the items described in the Retail segment adjusted gross profit(2) section above, adjusted EBITDA(2) was impacted by the following:

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in 2014 included approximately $6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangibles will be approximately $550 million until 2024, and will decrease thereafter.

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. 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.

Prior year tax assessment During the first quarter of 2016, the province of Ontario enacted retroactive amendments to the Land Transfer Tax Act. The amendments were applicable to land transfer activities between related parties that occurred on or after July 19, 1989. The amendments impacted certain land transfers between the Company and Choice Properties at the time of the initial public offering, resulting in the first quarter of 2016 and year-to-date charge of $10 million to SG&A in the Retail segment.

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.

Pension annuities and buy-outs The Company is undertaking 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.

Shoppers Drug Mart acquisition-related costs, net of impact from divestitures In the first quarter of 2015, the Company completed all remaining divestitures required by the Competition Bureau and recorded a divestiture loss of $2 million.

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 unaudited interim period condensed consolidated statements of earnings for the periods ended October 8, 2016 and October 10, 2015. 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)	**2016 (16 weeks)**	2015 (16 weeks)	**2016 (40 weeks)**	2015 (40 weeks)
Net interest expense and other financing charges	**$ 132**	$ 205	**$ 525**	$ 503
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**20**	(49)	**(120)**	(74)
Accelerated amortization of deferred financing costs	**—**	(4)	**—**	(15)
Adjusted net interest expense and other financing charges	**$ 152**	$ 152	**$ 405**	$ 414

Fair value adjustment to the Trust Unit Liability The Company is exposed to market price fluctuations as a result of the Choice Properties' Trust Units ("Units") held by unitholders other than the Company. These Units are presented as a liability on the Company's unaudited interim period condensed consolidated balance sheet 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. An increase (decrease) in market price of Units results in a charge (reduction) to net interest expense and other financing charges.

Accelerated amortization of deferred financing costs The Company recorded charges related to accelerated amortization of deferred financing costs due to early repayments of debt in 2015.

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 8, 2016 and October 10, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016** **(16 weeks)**	2015 (16 weeks)	**2016** **(40 weeks)**	2015 (40 weeks)
Adjusted operating income(i)	**$ 843**	$ 709	**$ 2,129**	$ 1,864
Adjusted net interest expense and other financing charges(i)	**152**	152	**405**	414
Adjusted earnings before taxes	**$ 691**	$ 557	**$ 1,724**	$ 1,450
Income taxes	**$ 143**	$ 89	**$ 360**	$ 286
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes(ii)	**40**	62	**117**	144
Statutory corporate income tax rate change	**—**	—	**(3)**	(38)
Adjusted income taxes	**$ 183**	$ 151	**$ 474**	$ 392
Effective tax rate	**25.6%**	35.2%	**32.2%**	36.6%
Adjusted income tax rate	**26.5%**	27.1%	**27.5%**	27.0%

(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.

Statutory corporate income tax rate change The Company's deferred income tax assets and liabilities are impacted by changes to provincial and federal statutory corporate income tax rates resulting in a charge or benefit to earnings. The Company implements changes in the statutory corporate income tax rate in the same period the change is substantively enacted by the legislative body.

In the first quarter of 2016, the Government of New Brunswick announced a 2% increase in the provincial statutory corporate income tax rate from 12% to 14%. The Company recorded a charge of $3 million in the first quarter of 2016 and year-to-date related to the re-measurement of deferred tax liabilities.

In the second quarter of 2015, the Government of Alberta announced a 2% increase in the provincial statutory corporate income tax rate from 10% to 12%. 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 Diluted Net Earnings Per Common Share The Company believes adjusted net earnings and adjusted diluted net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

The following table reconciles adjusted diluted net earnings per common share to GAAP diluted net earnings per common share as reported for the periods ended October 8, 2016 and October 10, 2015:

($ except where otherwise indicated)	**2016 (16 weeks)**	2015 (16 weeks)	**2016 (40 weeks)**	2015 (40 weeks)
Diluted weighted average common shares outstanding (millions)	**407.0**	416.0	**410.0**	415.9
Net earnings attributable to shareholders of the Company (millions of Canadian dollars)	**$ 422**	$ 170	**$ 779**	$ 501
Less: Prescribed dividends on preferred shares in share capital (millions of Canadian dollars)	**(3)**	(4)	**(9)**	(4)
Net earnings available to common shareholders of the Company (millions of Canadian dollars)	**$ 419**	$ 166	**$ 770**	$ 497
Diluted net earnings per common share	**$ 1.03**	$ 0.40	**$ 1.88**	$ 1.19
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability(i)	**(0.05)**	0.12	**0.30**	0.18
Amortization of intangible assets acquired with Shoppers Drug Mart	**0.30**	0.29	**0.74**	0.73
Restructuring and other related costs	**—**	0.18	**0.10**	0.32
Fair value adjustment on fuel and foreign currency contracts	**(0.01)**	(0.02)	**0.02**	(0.03)
Charges related to retail locations in Fort McMurray, net of recoveries	**(0.01)**	—	**0.01**	—
Net impairment reversals related to Drug retail ancillary assets	**—**	—	**(0.01)**	—
Statutory corporate income tax rate change	**—**	—	**0.01**	0.09
Fixed asset and other related impairments, net of recoveries	**—**	—	**0.01**	0.02
Charge related to apparel inventory	**—**	—	**—**	0.02
Accelerated amortization of deferred financing costs	**—**	0.01	**—**	0.03
Prior year tax assessment	**—**	—	**0.02**	—
Adjusted diluted net earnings per common share	**$ 1.26**	$ 0.98	**$ 3.08**	$ 2.55
Adjusted net earnings attributable to shareholders of the Company (millions of Canadian dollars)	**$ 515**	$ 412	**$ 1,271**	$ 1,063
Less: Prescribed dividends on preferred shares in share capital (millions of Canadian dollars)	**(3)**	(4)	**(9)**	(4)
Adjusted net earnings available to common shareholders of the Company (millions of Canadian dollars)	**$ 512**	$ 408	**$ 1,262**	$ 1,059

(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 8, 2016 and October 10, 2015. 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)	**2016 (16 weeks)**	2015 (16 weeks)	**2016 (40 weeks)**	2015 (40 weeks)
Cash flows from operating activities	**$ 1,112**	$ 1,068	**$ 2,658**	$ 2,515
Less:				
Capital investments	**383**	356	**754**	808
Interest paid	**165**	134	**396**	396
Free cash flow	**$ 564**	$ 578	**$ 1,508**	$ 1,311

Choice Properties' Adjusted Funds from Operations The following table reconciles Choice Properties' adjusted funds from operations to GAAP measures for the periods ended October 8, 2016 and October 10, 2015. 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)	**2016 (16 weeks)**	2015 (16 weeks)	**2016 (40 weeks)**	2015 (40 weeks)
Net income (loss)	**$ 213**	$ (174)	**$ (479)**	$ (196)
Fair value adjustments on Class B Limited Partnership units	**(124)**	221	**637**	315
Fair value adjustments on investment properties	**(44)**	(1)	**(7)**	16
Fair value adjustments on unit-based compensation	**—**	1	**5**	1
Fair value adjustments of investment property held in equity accounted joint venture	**—**	—	**(14)**	—
Distributions on Class B Limited Partnership units	**57**	51	**163**	151
Internal expenses for leasing	**—**	—	**2**	1
Funds from Operations	**$ 102**	$ 98	**$ 307**	$ 288
Straight-line rental revenue	**(8)**	(9)	**(27)**	(27)
Amortization of finance charges	**—**	—	**—**	(1)
Unit-based compensation expense	**—**	1	**2**	2
Sustaining property and leasing capital expenditures, normalized(i)	**(12)**	(11)	**(34)**	(31)
Adjusted Funds from Operations	**$ 82**	$ 79	**$ 248**	$ 231

(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 15, 2016
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120 of the Company's 2015 Annual Report.

(2) See Section 12 "Non-GAAP Financial Measures", which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.

(3) To be read in conjunction with Section 1 "Forward-Looking Statements".

(4) For segment presentation purposes, the results are for the periods ended September 30, 2016 and September 30, 2015, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to October 8, 2016 and October 10, 2015 are included in Consolidation and Eliminations. See Section 12 "Non-GAAP Financial Measures" and Note 20 "Segment Information" in the Company's 2016 unaudited interim period condensed consolidated financial statements.

(5) 2015 comparative Food retail same-store sales growth also excludes the negative impact of a change in distribution model by a tobacco supplier, which had no impact in the current period.

Financial Results

Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**October 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Revenue	**$ 14,143**	$ 13,946	**$ 35,255**	$ 34,529
Cost of Merchandise Inventories Sold	**10,195**	10,174	**25,290**	25,015
Selling, General and Administrative Expenses	**3,258**	3,314	**8,322**	8,229
Operating Income	**$ 690**	$ 458	**$ 1,643**	$ 1,285
Net interest expense and other financing charges (note 4)	**132**	205	**525**	503
Earnings Before Income Taxes	**$ 558**	$ 253	**$ 1,118**	$ 782
Income taxes (note 5)	**143**	89	**360**	286
Net Earnings	**$ 415**	$ 164	**$ 758**	$ 496
Attributable to:				
Shareholders of the Company	**$ 422**	$ 170	**$ 779**	$ 501
Non-Controlling Interests	**(7)**	(6)	**(21)**	(5)
Net Earnings	**$ 415**	$ 164	**$ 758**	$ 496
Net Earnings per Common Share ($) (note 6)				
Basic	**$ 1.04**	$ 0.40	**$ 1.90**	$ 1.21
Diluted	**$ 1.03**	$ 0.40	**$ 1.88**	$ 1.19
Weighted Average Common Shares Outstanding (millions) (note 6)				
Basic	**403.7**	411.5	**406.0**	411.8
Diluted	**407.0**	416.0	**410.0**	415.9

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

Condensed Consolidated Statements of Comprehensive Income

(millions of Canadian dollars) (unaudited)	**October 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Net Earnings	**$ 415**	$ 164	**$ 758**	$ 496
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment gain	**$ 2**	$ 5	**$ 8**	$ 8
Unrealized loss on cash flow hedges (note 17)	**—**	(1)	**(2)**	—
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 16)	**29**	134	**(72)**	129
Other comprehensive income (loss)	**$ 31**	$ 138	**$ (66)**	$ 137
Total Comprehensive Income	**$ 446**	$ 302	**$ 692**	$ 633
Attributable to:				
Shareholders of the Company	**$ 453**	$ 308	**$ 713**	$ 638
Non-Controlling Interests	**(7)**	(6)	**(21)**	(5)
Total Comprehensive Income	**$ 446**	$ 302	**$ 692**	$ 633

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 2, 2016	**$ 221**	**$ 7,851**	**$ 4,954**	**$ 102**	**$ 23**	**$ 13**	**$ 13,164**
Net earnings (loss)	**$ —**	**$ —**	**$ 779**	**$ —**	**$ —**	**$ (21)**	**$ 758**
Other comprehensive (loss) income	**—**	**—**	**(72)**	**—**	**6**	**—**	**(66)**
Total Comprehensive Income (Loss)	**$ —**	**$ —**	**$ 707**	**$ —**	**$ 6**	**$ (21)**	**$ 692**
Common shares purchased and cancelled (note 14)	**—**	**(143)**	**(365)**	**—**	**—**	**—**	**(508)**
Net effect of equity-based compensation (notes 14 and 15)	**—**	**46**	**(17)**	**—**	**—**	**—**	**29**
Shares purchased and held in trust (note 14)	**—**	**(24)**	**(66)**	**—**	**—**	**—**	**(90)**
Shares released from trust (notes 14 and 15)	**—**	**12**	**35**	**—**	**—**	**—**	**47**
Dividends declared (note 14)	**—**	**—**	**(321)**	**—**	**—**	**—**	**(321)**
Net contribution from non-controlling interests	**—**	**—**	**—**	**—**	**—**	**1**	**1**
	$ —	**$ (109)**	**$ (27)**	**$ —**	**$ 6**	**$ (20)**	**$ (150)**
Balance at October 8, 2016	**$ 221**	**$ 7,742**	**$ 4,927**	**$ 102**	**$ 29**	**$ (7)**	**$ 13,014**

(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	$ —	$ —	$ 501	$ —	$ —	$ (5)	$ 496
Other comprehensive income	—	—	129	—	8		137
Total Comprehensive Income	$ —	$ —	$ 630	$ —	$ 8	$ (5)	$ 633
Preferred share issuance (note 14)	221	—	—	—	—	—	221
Common shares purchased and cancelled (note 14)	—	(27)	(67)	—	—	—	(94)
Net effect of equity-based compensation (notes 14 and 15)	—	59	—	20	—	—	79
Shares purchased and held in trust (note 14)	—	(17)	(40)	—	—	—	(57)
Shares released from trust (notes 14 and 15)	—	2	13	—	—	—	15
Dividends declared (note 14)	—	—	(311)	—	—	—	(311)
Net contribution from non-controlling interests	—	—	—	—	—	1	1
	$ 221	$ 17	$ 225	$ 20	$ 8	$ (4)	$ 487
Balance at October 10, 2015	$ 221	$ 7,874	$ 5,035	$ 124	$ 16	$ 4	$ 13,274

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

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)	As at October 8, 2016	As at October 10, 2015	As at January 2, 2016
Assets			
Current Assets			
Cash and cash equivalents (note 7)	**$ 1,312**	$ 1,275	$ 1,018
Short term investments (note 7)	**156**	46	64
Accounts receivable	**1,059**	1,158	1,325
Credit card receivables (note 8)	**2,769**	2,663	2,790
Inventories (note 9)	**4,350**	4,444	4,322
Prepaid expenses and other assets (note 7)	**260**	440	265
Assets held for sale	**39**	15	71
Total Current Assets	**$ 9,945**	$ 10,041	$ 9,855
Fixed Assets	**10,396**	10,318	10,480
Investment Properties	**223**	198	160
Intangible Assets	**8,819**	9,239	9,164
Goodwill	**3,382**	3,357	3,362
Deferred Income Tax Assets	**132**	136	132
Franchise Loans Receivable (note 17)	**265**	338	329
Other Assets (note 10)	**401**	414	457
Total Assets	**$ 33,563**	$ 34,041	$ 33,939
Liabilities			
Current Liabilities			
Bank indebtedness	**$ 257**	$ 243	$ 143
Trade payables and other liabilities	**4,928**	4,926	5,106
Provisions	**99**	105	127
Income taxes payable	**236**	78	82
Short term debt (note 11)	**475**	580	550
Long term debt due within one year (note 12)	**301**	1,344	998
Associate interest	**227**	200	216
Total Current Liabilities	**$ 6,523**	$ 7,476	$ 7,222
Provisions	**128**	131	131
Long Term Debt (note 12)	**10,413**	9,760	10,013
Trust Unit Liability (note 17)	**956**	810	821
Deferred Income Tax Liabilities	**1,739**	1,854	1,834
Other Liabilities (note 13)	**790**	736	754
Total Liabilities	**$ 20,549**	$ 20,767	$ 20,775
Equity			
Preferred Share Capital (note 14)	**$ 221**	$ 221	$ 221
Common Share Capital (note 14)	**7,742**	7,874	7,851
Retained Earnings	**4,927**	5,035	4,954
Contributed Surplus (note 15)	**102**	124	102
Accumulated Other Comprehensive Income	**29**	16	23
Total Equity Attributable to Shareholders of the Company	**$ 13,021**	$ 13,270	$ 13,151
Non-Controlling Interests	**(7)**	4	13
Total Equity	**$ 13,014**	$ 13,274	$ 13,164
Total Liabilities and Equity	**$ 33,563**	$ 34,041	$ 33,939

Contingent Liabilities (note 18).

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

Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars) (unaudited)	**October 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Operating Activities				
Net earnings	**$ 415**	$ 164	**$ 758**	$ 496
Add (Deduct):				
Income taxes (note 5)	**143**	89	**360**	286
Net interest expense and other financing charges (note 4)	**132**	205	**525**	503
Depreciation and amortization	**464**	477	**1,178**	1,216
Net fixed asset and other related impairments	**3**	24	**9**	47
(Gain) Loss on disposal of assets	**(1)**	(5)	**2**	(7)
	$ 1,156	$ 954	**$ 2,832**	$ 2,541
Change in non-cash working capital	**74**	116	**39**	135
Change in credit card receivables (note 8)	**(2)**	(16)	**21**	(33)
Income taxes paid	**(96)**	(25)	**(279)**	(231)
Interest received	**3**	2	**7**	5
Other	**(23)**	37	**38**	98
Cash Flows from Operating Activities	**$ 1,112**	$ 1,068	**$ 2,658**	$ 2,515
Investing Activities				
Fixed asset purchases	**$ (293)**	$ (297)	**$ (535)**	$ (679)
Intangible asset additions	**(90)**	(59)	**(219)**	(129)
Cash assumed on initial consolidation of franchises (note 3)	**13**	2	**31**	2
Change in short term investments	**(132)**	6	**(92)**	(25)
Proceeds from disposal of assets	**20**	8	**53**	34
Change in security deposits (note 7)	**1**	(204)	**—**	(204)
Other	**10**	(9)	**1**	(64)
Cash Flows used in Investing Activities	**$ (471)**	$ (553)	**$ (761)**	$ (1,065)
Financing Activities				
Change in bank indebtedness	**$ (12)**	$ (32)	**$ 114**	$ 81
Change in short term debt (note 11)	**—**	75	**(75)**	(25)
Long Term Debt (note 12)				
Issued	**50**	334	**656**	848
Retired	**(70)**	(313)	**(1,019)**	(1,281)
Interest paid	**(165)**	(134)	**(396)**	(396)
Dividends paid on common and preferred shares	**(216)**	(210)	**(321)**	(311)
Common Share Capital				
Issued (note 15)	**4**	20	**38**	48
Purchased and held in trust (note 14)	**—**	(22)	**(90)**	(57)
Purchased and cancelled (note 14)	**(145)**	(39)	**(508)**	(94)
Preferred Share Capital				
Issued (note 14)	**—**	—	**—**	221
Redeemed (note 14)	**—**	(225)	**—**	(225)
Other	**12**	16	**4**	7
Cash Flows used in Financing Activities	**$ (542)**	$ (530)	**$ (1,597)**	$ (1,184)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$ 3**	$ 5	**$ (6)**	$ 10
Change in cash and cash equivalents	**$ 102**	$ (10)	**$ 294**	$ 276
Cash and cash equivalents, beginning of period	**1,210**	1,285	**1,018**	999
Cash and Cash Equivalents, End of Period	**$ 1,312**	$ 1,275	**$ 1,312**	$ 1,275

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 provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, retail banking, credit card services, insurance and wireless mobile 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 consolidated financial statements, as the "Company" or "Loblaw".

The Company's controlling shareholder is George Weston Limited ("Weston") which owns approximately 47% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments, Limited. The remaining common shares are widely held.

The Company has three reportable operating segments: Retail, Financial Services and Choice Properties (see note 20). As at the end of the third quarter of 2016, Loblaw held an effective interest in Choice Properties of 83% (2015 – 83%).

The Company's business is affected by seasonality and 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 2015 audited annual consolidated 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 2015 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 15, 2016.

Changes in Accounting Standards

Presentation of Financial Statements The Company implemented the amendments to IAS 1, "Presentation of Financial Statements", in the first quarter of 2016, with no significant impact on the Company's unaudited interim period condensed consolidated financial statements.

Income Taxes The Company is awaiting final publication of the IFRS Interpretations Committee's agenda decision related to the expected manner of recovery of indefinite life intangible assets when measuring deferred income taxes in accordance with IAS 12, "Income Taxes". The Company expects that the Committee will finalize and publish the agenda decision in the upcoming weeks. Following publication of the Committee's agenda decision, the Company will implement this guidance in subsequent financial statements on a retrospective basis as an accounting policy change in accordance with IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors". Although the Company is still assessing the impact of the change in accounting policy on its consolidated financial statements, it expects an increase in goodwill and deferred income tax liabilities and an impact to prior year net earnings related to the re-measurement of deferred income tax liabilities as a result of the Alberta statutory corporate income tax rate change in 2015.

Changes in Accounting Estimates

Fixed Assets In the second quarter of 2016, the Company reassessed and revised the useful life of certain classes of equipment and fixtures from eight to ten years. This revision represents a change in estimate which will result in a current year reduction of depreciation and amortization expense, related to these assets, of approximately $66 million compared to 2015.

Note 3. Business Acquisitions

Consolidation of Franchises The Company consolidates certain of its franchisees as of the date the franchisee entered into the new, simplified franchise agreement with the Company. The assets acquired and liabilities assumed through the consolidation were valued at the acquisition date using fair values, which approximate the franchise carrying values at the date of acquisition. The results of operations of the acquired franchises were included in the Company's results of operations from the date of acquisition.

The following table summarizes the amounts recognized for the assets acquired, the liabilities assumed and the non-controlling interests recognized at the acquisition dates during the periods:

(millions of Canadian dollars)	**October 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Net Assets Acquired:				
Cash and cash equivalents	**$ 13**	$ 2	**$ 31**	$ 2
Inventories	**21**	12	**49**	21
Fixed assets	**24**	21	**45**	33
Trade payables and other liabilities(i)	**(21)**	(3)	**(47)**	(4)
Other liabilities(i)	**(35)**	(31)	**(66)**	(51)
Non-controlling interests	**(2)**	(1)	**(12)**	(1)
Total Net Assets Acquired	**$ —**	$ —	**$ —**	$ —

(i) On consolidation, Trade payables and other liabilities and Other Liabilities eliminate against existing Accounts receivable, Franchise Loans Receivable and franchise investments held by the Company.

Other Business Acquisitions In the third quarter of 2015, the Company acquired the net assets of a grocery store with cash consideration for a total of $41 million. In the second quarter of 2016, the Company finalized the purchase allocation as follows:

(millions of Canadian dollars)	
Net Assets Acquired:	
Fixed assets	$ 16
Inventories	1
Other assets	3
Goodwill	21
Total Net Assets Acquired	$ 41

Goodwill is attributable to synergies expected from integrating the store into the Company's existing franchise network. The goodwill is deductible for tax purposes.

Subsequent to the end of the third quarter of 2016, the Company, through its wholly-owned subsidiary Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), completed the acquisition of all of the issued and outstanding common shares of QHR Corporation ("QHR"), a publicly traded healthcare technology company. The shares of QHR were acquired for cash consideration of approximately $162 million. The Company has not yet finalized the purchase price allocation related to this acquisition.

Note 4. Net Interest Expense and Other Financing Charges

(millions of Canadian dollars)	**October 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Interest expense and other financing charges:				
Long term debt[(i)]	**$ 129**	$ 138	**$ 349**	$ 367
Borrowings related to credit card receivables	**7**	9	**20**	27
Trust Unit distributions	**13**	11	**36**	33
Post-employment and other long term employee benefits (note 16)	**4**	4	**10**	10
Independent funding trusts	**4**	4	**11**	11
Dividends on capital securities	**—**	1	**—**	8
Bank indebtedness	**2**	2	**4**	5
Capitalized interest	**(1)**	(2)	**(3)**	(4)
	$ 158	$ 167	**$ 427**	$ 457
Interest income:				
Accretion income	**(4)**	(8)	**(11)**	(21)
Short term interest income	**(2)**	(3)	**(8)**	(7)
Derivative financial instruments[(ii)]	**—**	—	**(3)**	—
	$ (6)	$ (11)	**$ (22)**	$ (28)
Fair value adjustment to the Trust Unit Liability (note 17)	**$ (20)**	$ 49	**$ 120**	$ 74
Net interest expense and other financing charges	**$ 132**	$ 205	**$ 525**	$ 503

(i) Included in the third quarter of 2015 and year-to-date is accelerated amortization of deferred financing costs of $4 million and $15 million, respectively, related to the early repayment of Loblaw's $3.5 billion unsecured term loan facility, obtained in connection with the acquisition of Shoppers Drug Mart.

(ii) Represents a realized fair value gain of $3 million related to Choice Properties bond forward agreements settled in the first quarter of 2016 (see note 17).

Note 5. Income Taxes

Income tax expense for the third quarter of 2016 was $143 million (2015 – $89 million) and the effective income tax rate was 25.6% (2015 – 35.2%). Year-to-date income tax expense was $360 million (2015 – $286 million) and the effective tax rate was 32.2% (2015 – 36.6%). The decrease in the effective tax rate was primarily attributable to a decrease in the non-deductible fair value adjustment to the Trust Unit Liability, a decrease in certain other non-deductible items; partially offset by an increase in current tax as a result of a prorated increase in the Alberta statutory corporate income tax rate from 10% to 12% enacted in the second quarter of 2015.

The decrease in the year-to-date effective income tax rate also includes a decrease in deferred tax expense resulting from a prior year charge related to the re-measurement of deferred tax liabilities related to the increase in the Alberta statutory corporate income tax rate net of an increase in deferred tax expense in the first quarter of 2016 resulting from the increase in the New Brunswick statutory corporate income tax rate. The decrease was partially offset by a year-to-date increase in the non-deductible fair value adjustment to the Trust Unit Liability and an increase in current tax as a result of a prorated increase in the Alberta statutory corporate income tax rate in 2015.

In the first quarter of 2016, the Government of New Brunswick announced a 2% increase in the provincial statutory corporate income tax rate from 12% to 14%. The Company recorded a charge of $3 million in the first quarter of 2016 and year-to-date related to the re-measurement of its deferred tax liabilities.

In the second quarter of 2015, the Government of Alberta announced a 2% increase in the provincial statutory corporate income tax rate from 10% to 12%. 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.

Note 6. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**October 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Net earnings attributable to shareholders of the Company	**$ 422**	$ 170	**$ 779**	$ 501
Dividends on Preferred Shares in Equity (note 14)	**(3)**	(4)	**(9)**	(4)
Net earnings available to common shareholders	**$ 419**	$ 166	**$ 770**	$ 497
Weighted average common shares outstanding (in millions) (note 14)	**403.7**	411.5	**406.0**	411.8
Dilutive effect of equity-based compensation (in millions)	**3.3**	4.5	**3.5**	4.1
Dilutive effect of certain other liabilities (in millions)	**—**	—	**0.5**	—
Diluted weighted average common shares outstanding (in millions)	**407.0**	416.0	**410.0**	415.9
Basic net earnings per common share ($)	**$ 1.04**	$ 0.40	**$ 1.90**	$ 1.21
Diluted net earnings per common share ($)	**$ 1.03**	$ 0.40	**$ 1.88**	$ 1.19

For the third quarter of 2016, 1,756,781 (2015 – 10,891,335) and year-to-date 1,289,178 (2015 – 10,891,335) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

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

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

Cash and Cash Equivalents

(millions of Canadian dollars)	**As at October 8, 2016**	As at October 10, 2015	As at January 2, 2016
Cash	**$ 497**	$ 543	$ 352
Cash equivalents:			
Government treasury bills	**195**	392	208
Bankers' acceptances	**307**	42	213
Corporate commercial paper	**264**	25	96
Bank term deposits	**49**	273	129
Government agencies securities	**—**	—	20
Total cash and cash equivalents	**$ 1,312**	$ 1,275	$ 1,018

Short Term Investments

(millions of Canadian dollars)	**As at October 8, 2016**	As at October 10, 2015	As at January 2, 2016
Government treasury bills	**$ 39**	$ 31	$ 60
Bankers' acceptances	**74**	14	2
Corporate commercial paper	**42**	1	—
Other	**1**	—	2
Total short term investments	**$ 156**	$ 46	$ 64

Security Deposits

(millions of Canadian dollars)		As at October 8, 2016		As at October 10, 2015		As at January 2, 2016
Cash	**$**	**2**	$	140	$	2
Government treasury bills		**—**		71		—
Total security deposits		**2**		211		2
Current portion included in Prepaid and Other Assets		**—**		209		—
Security Deposits included in Other Assets (note 10)	**$**	**2**	$	2	$	2

As at October 8, 2016, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $103 million (October 10, 2015 – $146 million; January 2, 2016 – $149 million), of which $2 million (October 10, 2015 – $2 million; January 2, 2016 – $2 million) was deposited with major financial institutions and classified as security deposits.

Note 8. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)		As at October 8, 2016		As at October 10, 2015		As at January 2, 2016
Gross credit card receivables	**$**	**2,822**	$	2,714	$	2,844
Allowance for credit card receivables		**(53)**		(51)		(54)
Credit card receivables	**$**	**2,769**	$	2,663	$	2,790
Securitized to independent securitization trusts:						
Securitized to *Eagle Credit Card Trust®*	**$**	**650**	$	1,000	$	650
Securitized to Other Independent Securitization Trusts		**475**		580		550

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 the co-ownership interest in credit card receivables with independent securitization trusts, including *Eagle Credit Card Trust® ("Eagle")* and Other Independent Securitization Trusts, in accordance with its financing requirements.

The associated liability of *Eagle* is recorded in long term debt (see note 12). The associated liabilities of credit card receivables securitized to the Other Independent Securitization Trusts are recorded in short term debt (see note 11).

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 8, 2016 and throughout 2016.

Note 9. Inventories

For inventories recorded as at October 8, 2016, the Company recorded $18 million (October 10, 2015 – $31 million) as an expense for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold. There were no reversals of previously recorded write-downs of inventories during the quarter and year-to-date ended October 8, 2016 and October 10, 2015.

Note 10. Other Assets

(millions of Canadian dollars)	**As at October 8, 2016**	As at October 10, 2015	As at January 2, 2016
Sundry investments and other receivables	**$ 103**	$ 149	$ 119
Accrued benefit plan asset	**129**	183	190
Interests in joint ventures	**5**	8	9
Other	**164**	74	139
Other assets	**$ 401**	$ 414	$ 457

Note 11. Short Term Debt

The outstanding short term debt balance of $475 million (October 10, 2015 – $580 million; January 2, 2016 – $550 million) relates to credit card receivables securitized to the Other Independent Securitization Trusts with recourse (see note 8).

As at October 8, 2016, the aggregate gross potential liability under letters of credit for the benefit of the Other Independent Securitization Trusts was $50 million (October 10, 2015 – $59 million; January 2, 2016 – $56 million), which represented approximately 10% (October 10, 2015 – 10%; January 2, 2016 – 10%) of the securitized credit card receivables amount.

Note 12. Long Term Debt

(millions of Canadian dollars)	**As at October 8, 2016**	As at October 10, 2015	As at January 2, 2016
Debentures and Medium Term Notes	**$ 7,564**	$ 7,826	$ 8,035
Unsecured Term Loan Facilities	**298**	298	298
Long Term Debt Secured by Mortgage	**79**	83	82
Guaranteed Investment Certificates	**838**	684	809
Independent Securitization Trust (note 8)	**650**	1,000	650
Independent Funding Trusts	**546**	506	529
Finance Lease Obligations	**614**	593	629
Committed Credit Facilities	**148**	133	—
Transaction costs and other	**(23)**	(19)	(21)
Total Long Term Debt	**$ 10,714**	$ 11,104	$ 11,011
Long Term Debt due within one year	**301**	1,344	998
Long Term Debt	**$ 10,413**	$ 9,760	$ 10,013

Debentures and Medium Term Notes The following table summarizes the debentures and Medium Term Notes ("MTNs") issued in 2016 and 2015:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**October 8, 2016 (40 weeks) Principal Amount**	October 10, 2015 (40 weeks) Principal Amount
Choice Properties senior unsecured debentures				
– Series G(i)	3.20%	March 7, 2023	**$ 250**	$ —
– Series H(i)	5.27%	March 7, 2046	**100**	—
– Series E	2.30%	September 14, 2020	**—**	250
Total Debentures and Medium Term Notes issued			**$ 350**	$ 250

(i) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus Supplement filed in the fourth quarter of 2015.

There were no issuances in the third quarters of 2016 and 2015.

The following table summarizes the debentures and MTNs repaid during the periods:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**October 8, 2016 (40 weeks) Principal Amount**	October 10, 2015 (40 weeks) Principal Amount
Loblaw Companies Limited Notes	7.10%	June 1, 2016	**$ 300**	$ —
Shoppers Drug Mart Notes	2.01%	May 24, 2016	**225**	—
Choice Properties senior unsecured debentures – Series 5	3.00%	March 7, 2016	**300**	—
Total Debentures and Medium Term Notes repaid			**$ 825**	$ —

There were no debentures or MTNs repaid in the third quarters of 2016 and 2015.

Unsecured Term Loan Facilities The unsecured term loan facilities contained certain financial covenants, with which the Company was in compliance as at October 8, 2016 and throughout 2016.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, during the periods:

(millions of Canadian dollars)	**October 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Balance, beginning of period	**$ 833**	$ 621	**$ 809**	$ 634
GICs issued	**43**	72	**144**	79
GICs matured	**(38)**	(9)	**(115)**	(29)
Balance, end of period	**$ 838**	$ 684	**$ 838**	$ 684

Independent Securitization Trust The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables (see note 8). As at October 8, 2016, the aggregate gross potential liability under letters of credit for the benefit of *Eagle* was $36 million (October 10, 2015 – $68 million; January 2, 2016 – $36 million), which represented 9% (October 10, 2015 – 9%; January 2, 2016 – 9%) of the outstanding *Eagle* notes issued prior to 2015.

Independent Funding Trusts In the second quarter of 2016, the Company amended the committed credit facility agreement to increase the size of the facility to $700 million and extended the maturity date to June 10, 2019, with all other terms and conditions remaining substantially the same.

The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts in the amount of $58 million (October 10, 2015 – $52 million; January 2, 2016 – $53 million), representing not less than 10% (October 10, 2015 and January 2, 2016 – 10%, respectively) of the principal amount of loans outstanding.

Committed Credit Facilities The components of the committed lines of credit as of October 8, 2016, October 10, 2015 and January 2, 2016 were as follows:

	As at October 8, 2016		As at October 10, 2015		As at January 2, 2016	
(millions of Canadian dollars)	**Available Credit**	**Drawn**	Available Credit	Drawn	Available Credit	Drawn
Loblaw's Committed Credit Facility	**$ 1,000**	**—**	$ 1,000	$ —	$ 1,000	$ —
Choice Properties' Committed Credit Facility	**500**	**148**	500	133	500	—
Total Committed Lines of Credit	**$ 1,500**	**148**	$ 1,500	$ 133	$ 1,500	$ —

In the second quarter of 2016, the Company amended its Credit Facility agreement to extend the maturity date to June 10, 2021, with all other terms and conditions remaining substantially the same. In the third quarter of 2016, Choice Properties extended the maturity date of its facility to July 5, 2021, with all other terms and conditions remaining substantially the same.

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 8, 2016**	As at October 10, 2015	As at January 2, 2016
Debentures and MTNs	**$ 200**	$ 825	$ 825
Long Term Debt Secured by Mortgage	**5**	4	5
GICs	**43**	114	112
Independent Securitization Trusts	**—**	350	—
Finance Lease Obligations	**53**	51	56
Long term debt due within one year	**$ 301**	$ 1,344	$ 998

Note 13. Other Liabilities

(millions of Canadian dollars)	**As at October 8, 2016**	As at October 10, 2015	As at January 2, 2016
Net defined benefit plan obligation	**$ 378**	$ 288	$ 312
Other long term employee benefit obligation	**113**	114	116
Deferred lease obligation	**112**	92	101
Fair value of acquired leases	**80**	92	90
Equity-based compensation liability (note 15)	**5**	9	5
Other	**102**	141	130
Other liabilities	**$ 790**	$ 736	$ 754

Note 14. Share Capital

Second Preferred Share Capital (authorized – unlimited) In 2015, the Company issued 9.0 million 5.30% non–voting Second Preferred Shares, Series B and redeemed all of the outstanding 9.0 million 5.95% non–voting Second Preferred Shares, Series A. The Second Preferred Shares, Series B have a face value of $225 million and are presented as a component of equity in the condensed consolidated balance sheet in the amount of $221 million, net of $4 million of after–tax issuance costs.

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 8, 2016 (16 weeks)		October 10, 2015 (16 weeks)		**October 8, 2016 (40 weeks)**		October 10, 2015 (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	**405,537,834 $**	**7,798**	412,386,285 $	7,878	**409,985,226 $**	**7,861**	412,480,891 $	7,860
Issued for settlement of stock options	**114,765**	**6**	565,499	24	**1,029,373**	**46**	1,341,381	59
Purchased and cancelled	**(2,080,000)**	**(40)**	(546,351)	(10)	**(7,442,000)**	**(143)**	(1,416,839)	(27)
Issued and outstanding, end of period	**403,572,599 $**	**7,764**	412,405,433 $	7,892	**403,572,599 $**	**7,764**	412,405,433 $	7,892
Shares held in trust, beginning of period	**(1,159,865) $**	**(22)**	(789,643) $	(12)	**(643,452) $**	**(10)**	(555,046) $	(3)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	(328,041)	(6)	**(1,250,000)**	**(24)**	(871,894)	(17)
Released for settlement of RSUs and PSUs (note 15)	**20,619**	**—**	42,481	—	**754,206**	**12**	351,737	2
Shares held in trust, end of period	**(1,139,246) $**	**(22)**	(1,075,203) $	(18)	**(1,139,246) $**	**(22)**	(1,075,203) $	(18)
Issued and outstanding, net of shares held in trust, end of period	**402,433,353 $**	**7,742**	411,330,230 $	7,874	**402,433,353 $**	**7,742**	411,330,230 $	7,874
Weighted average outstanding, net of shares held in trust	**403,711,134**		411,505,687		**406,016,530**		411,785,643	

Normal Course Issuer Bid Activity under the Company's Normal Course Issuer Bid ("NCIB") during the periods was as follows:

(millions of Canadian dollars except where otherwise indicated)	**October 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**2,080,000**	546,351	**7,442,000**	1,416,839
Cash consideration paid	**$ 145**	$ 39	**$ 508**	$ 94
Premium charged to Retained Earnings	**105**	29	**365**	67
Reduction in Common Share Capital	**40**	10	**143**	27
Common shares repurchased under the NCIB and held in trust (number of shares)	**—**	328,041	**1,250,000**	871,894
Cash consideration paid	**$ —**	$ 22	**$ 90**	$ 57
Premium charged to Retained Earnings	**—**	16	**66**	40
Reduction in Common Share Capital	**—**	6	**24**	17

In the second quarter of 2016, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 21,401,867 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.

Dividends The Company's cash dividends declared for the periods are summarized as follows:

	October 8, 2016(i) (16 weeks)	October 10, 2015 (16 weeks)	October 8, 2016 (40 weeks)	October 10, 2015 (40 weeks)
Dividends declared per share ($):				
Common Share	$ 0.26	$ 0.25	$ 0.77	$ 0.75
Second Preferred Share, Series A	$ —	$ —	$ —	$ 0.74
Second Preferred Share, Series B	$ 0.33	$ 0.41	$ 0.99	$ 0.41

(i) The third quarter dividends for 2016 of $0.26 per share declared on common shares were paid on October 1, 2016. The third quarter dividends for 2016 of $0.33 per share declared on Second Preferred Shares, Series B were paid on September 30, 2016.

(millions of Canadian dollars)	October 8, 2016 (16 weeks)	October 10, 2015 (16 weeks)	October 8, 2016 (40 weeks)	October 10, 2015 (40 weeks)
Dividends declared:				
Common Share	$ 104	$ 103	$ 312	$ 307
Second Preferred Share, Series A(i)	—	1	—	8
Second Preferred Share, Series B	3	4	9	4
Total dividends declared	$ 107	$ 108	$ 321	$ 319

(i) For financial statement purposes, Second Preferred Shares, Series A dividends of $1 million in the third quarter of 2015 and $8 million 2015 year-to-date were recognized on an accrual basis and included as a component of net interest expense and other financing charges (note 4).

Subsequent to the end of the third quarter of 2016, the Board declared a quarterly dividend of $0.26 per common share, payable on December 30, 2016 to shareholders of record on December 15, 2016 and a dividend on the Second Preferred Shares, Series B of $0.33 per share payable on December 31, 2016 to shareholders of record on December 15, 2016.

Note 15. 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 $16 million for the third quarter of 2016 (2015 – $22 million) and $49 million year-to-date (2015 – $53 million). The expense was recognized in operating income.

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

(millions of Canadian dollars)	As at October 8, 2016	As at October 10, 2015	As at January 2, 2016
Trade payables and other liabilities	$ 8	$ 2	$ 4
Other liabilities	5	9	5
Contributed surplus	102	124	102

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 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Outstanding options, beginning of period	**7,662,246**	8,965,804	**7,411,405**	8,364,884
Granted	**8,649**	28,904	**1,283,332**	1,568,413
Exercised	**(114,765)**	(565,499)	**(1,029,373)**	(1,341,381)
Forfeited/cancelled	**(50,314)**	(97,402)	**(159,548)**	(260,109)
Outstanding options, end of period	**7,505,816**	8,331,807	**7,505,816**	8,331,807

During the third quarter of 2016, the Company granted stock options with a weighted average exercise price of $73.46 (2015 – $69.83) and $68.97 year-to-date (2015 – $63.61). 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 2016 of $71.37 (2015 – $70.84) and $70.21 year-to-date (2015 – $66.45) and received cash consideration of $4 million (2015 – $20 million) and $38 million (2015 – $48 million) year-to-date.

The fair value of stock options granted during the third quarter of 2016 was nominal (2015 – $1 million) and $13 million (2015 – $14 million) year-to-date. The assumptions used to measure the fair value of options granted during 2016 and 2015 under the Black-Scholes valuation model at date of grant were as follows:

	October 8, 2016 (16 weeks)	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Expected dividend yield	**1.4%**	1.4%	**1.5%**	1.5%
Expected share price volatility	**18.4% – 18.9%**	18.6% – 19.0%	**18.4% – 19.0%**	18.5% – 20.1%
Risk-free interest rate	**0.6% – 0.7%**	0.6% – 1.0%	**0.6% – 0.9%**	0.6% – 1.4%
Expected life of options	**3.9 – 6.3 years**	3.9 – 6.3 years	**3.9 – 6.3 years**	3.9 – 6.3 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at October 8, 2016 was 10.0% (October 10, 2015 – 11.0%).

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

(Number of Awards)	**October 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
RSUs, beginning of period	**869,889**	1,433,267	**887,792**	1,462,790
Granted	**14,687**	21,478	**263,065**	288,715
Reinvested	**—**	4,100	**—**	6,208
Settled	**(18,768)**	(24,024)	**(279,536)**	(275,783)
Forfeited	**(8,289)**	(21,182)	**(13,802)**	(68,291)
RSUs, end of period	**857,519**	1,413,639	**857,519**	1,413,639

The fair value of RSUs granted during the third quarter of 2016 was $1 million (2015 – $1 million) and $18 million year-to-date (2015 – $17 million).

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

(Number of Awards)	**October 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
PSUs, beginning of period	**994,273**	1,131,719	**1,100,356**	1,019,304
Granted	**1,871**	49,070	**373,228**	305,518
Settled	**(1,851)**	(18,457)	**(475,170)**	(76,304)
Forfeited	**(7,127)**	(16,729)	**(11,248)**	(102,915)
PSUs, end of period	**987,166**	1,145,603	**987,166**	1,145,603

The fair value of PSUs granted during the third quarter of 2016 was nominal (2015 – $3 million) and $14 million year-to-date (2015 – $19 million).

Settlement of Awards from Shares Held in Trust The Company settled RSUs and PSUs totaling 20,619 during the third quarter of 2016 (2015 – 42,481) and 754,706 year-to-date (2015 – 352,087), of which 20,619 (2015 – 42,481) and 754,206 (2015 – 351,737) respectively, were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 14).

The settlements in the third quarter of 2016 and year-to-date resulted in a net increase of $1 million and $18 million to retained earnings, respectively (2015 – $2 million and $13 million, respectively), and a nominal and $12 million increase to common share capital, respectively (2015 – nominal and $2 million, respectively).

Note 16. 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 8, 2016 (16 weeks)**	October 10, 2015 (16 weeks)	**October 8, 2016 (40 weeks)**	October 10, 2015 (40 weeks)
Post-employment benefit costs recognized in operating income	**$ 49**	$ 50	**$ 128**	$ 121
Other long term employee benefits costs recognized in operating income	**7**	5	**17**	14
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 4)	**4**	4	**10**	10
Actuarial gains (losses) before income taxes recognized in other comprehensive income	**40**	183	**(98)**	176

The actuarial gains recognized in the third quarter of 2016 were primarily driven by higher than expected returns on assets, while year-to-date losses were primarily driven by decreases in discount rates, partially offset by higher than expected returns on assets. The actuarial gains recognized in the third quarter of 2015 were primarily driven by increases in 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.

Note 17. 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. The carrying values of the Company's financial instruments approximate their fair values except for long term debt.

				As at October 8, 2016				As at October 10, 2015				As at January 2, 2016
(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	**$ 692**	**$ 620**	**$ —**	**$ 1,312**	$ 935	$ 340	$ —	$ 1,275	$ 560	$ 458	$ —	$ 1,018
Short term investments	**39**	**117**	**—**	**156**	31	15	—	46	60	4	—	64
Security deposits	**2**	**—**	**—**	**2**	211	—	—	211	2	—	—	2
Franchise loans receivable	**—**	**—**	**265**	**265**	—	—	338	338	—	—	329	329
Certain other assets(i)	**24**	**2**	**45**	**71**	25	26	64	115	25	2	59	86
Derivatives included in prepaid expenses and other assets	**4**	**10**	**—**	**14**	—	18	—	18	—	37	—	37
Financial liabilities:												
Long term debt	**—**	**11,936**	**—**	**11,936**	—	11,917	—	11,917	—	12,003	—	12,003
Trust unit liability	**956**	**—**	**—**	**956**	810	—	—	810	821	—	—	821
Certain other liabilities(i)	**—**	**—**	**20**	**20**	—	—	24	24	—	—	20	20
Derivatives included in trade payables and other liabilities	**—**	**1**	**3**	**4**	2	—	—	2	6	—	7	13

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

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

During the third quarter of 2016, the Company recognized a gain of $3 million (2015 – nominal gain) and a loss of $6 million (2015 – gain of $1 million) year-to-date in operating income on financial instruments designated as fair value through profit or loss. In addition, during the third quarter of 2016, a net gain of $27 million (2015 – loss of $28 million) and a net loss of $121 million (2015 – loss of $36 million) year-to-date was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Level 3 Financial Instruments

Franchise Loans Receivable and Franchise Investments The value of Loblaw franchise loans receivable of $265 million (October 10, 2015 – $338 million; January 2, 2016 – $329 million) was recorded in the condensed consolidated balance sheet. In the third quarter of 2016 and year-to-date, the Company recorded a $1 million loss (2015 – nominal loss) in operating income related to these loans receivable.

The value of Loblaw franchise investments of $42 million (October 10, 2015 – $59 million; January 2, 2016 – $54 million) was recorded in other assets. During the third quarter of 2016, the Company recorded a gain of $9 million (2015 – loss of $1 million) and a gain of $12 million year-to-date (2015 – loss of $5 million) in operating income related to these investments.

Embedded Derivatives The Company's level 3 financial instruments classified as fair value through profit or loss 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.

During the third quarter of 2016, a $7 million loss (2015 – nominal loss) and a gain of $4 million year-to-date (2015 – gain of $4 million) was recorded in operating income. As at October 8, 2016, a 1% increase (decrease) in foreign currency exchange rates would result in a $1 million gain (loss) in fair value.

Trust Unit Liability During the third quarter of 2016, the Company recorded a fair value gain of $20 million (2015 – loss of $49 million) and a loss of $120 million year-to-date (2015 – loss of $74 million) in net interest expense and other financing charges related to Choice Properties' Trust Units ("Units") (note 4).

Other Derivatives The Company uses bond forwards and interest rate swaps, to manage its anticipated exposure to fluctuations in interest rates on future debt issuances. The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations. The following is a summary of the fair values recognized in the consolidated balance sheet and the net realized and unrealized gains (losses) before income taxes related to the Company's other derivatives:

					October 8, 2016
			(16 weeks)		**(40 weeks)**
(millions of Canadian dollars)	**Net Asset/ (Liability) Fair value**	**Gain/(loss) recorded in OCI**	**Gain/(loss) recorded in net earnings**	**Gain/(loss) recorded in OCI**	**Gain/(loss) recorded in net earnings**
Derivatives designated as cash flow hedges[(i)]					
Foreign Exchange Forwards	**$ 1**	**$ 1**	**$ —**	**$ (3)**	**$ 2**
Total derivatives designated as cash flow hedges	**$ 1**	**$ 1**	**$ —**	**$ (3)**	**$ 2**
Derivatives not designated in a formal hedging relationship					
Foreign Exchange Futures and Forwards	**$ 8**	**$ —**	**$ 12**	**$ —**	**$ (13)**
Bond Forwards[(ii)]	**—**	**—**	**—**	**—**	**3**
Other Non-Financial Derivatives	**4**	**—**	**3**	**—**	**6**
Total derivatives not designated in a formal hedging relationship	**$ 12**	**$ —**	**$ 15**	**$ —**	**$ (4)**
Total derivatives	**$ 13**	**$ 1**	**$ 15**	**$ (3)**	**$ (2)**

(i) Includes bond forward agreements with a notional value of $95 million and interest rate swap agreements with a notional value of $200 million. During the third quarter of 2016 and year-to-date, a nominal fair value adjustment was recorded in OCI relating to these agreements.

(ii) Realized fair value gain of $3 million related to Choice Properties bond forward agreements settled in the first quarter of 2016 and recorded in net interest expense and other financing charges (see note 4).

					October 10, 2015
			(16 weeks)		(40 weeks)
(millions of Canadian dollars)	Net Asset/ (Liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in net earnings	Gain/(loss) recorded in OCI	Gain/(loss) recorded in net earnings
Derivatives designated as cash flow hedges					
Foreign Exchange Forwards	$ 2	$ 2	$ —	$ 2	$ —
Bond Forwards	—	(3)	—	(3)	—
Total derivatives designated as cash flow hedges	$ 2	$ (1)	$ —	$ (1)	$ —
Derivatives not designated in a formal hedging relationship					
Foreign Exchange Futures and Forwards	$ 16	$ —	$ 23	$ —	$ 33
Other Non-Financial Derivatives	(2)	—	(2)	—	1
Total derivatives not designated in a formal hedging relationship	$ 14	$ —	$ 21	$ —	$ 34
Total derivatives	$ 16	$ (1)	$ 21	$ (1)	$ 34

Note 18. Contingent Liabilities

The Company is involved in, and potentially subject to, various claims by third parties arising out of the normal course and conduct of its business including product liability, labour and employment, regulatory and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital, commodity, property and other taxes and as a result of these audits may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the 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 class action proceeding that has been filed in 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 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. The Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class. 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.

The Company has been 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 are for the 2000 to 2011 taxation years and total $351 million including interest and penalties as at the time of reassessment. The Company believes it is likely that the CRA will issue reassessments for the 2012 and 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 for the 2000 to 2010 taxation years and a Notice of Objection for the 2011 taxation year. No amount for any reassessments has been provided for in the Company's 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, lease agreements in connection with business or asset acquisitions or dispositions, and other types of commercial agreements. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representations and warranties or in respect of 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. In addition, the terms of these indemnification provisions vary in amount and certain indemnification provisions do not provide for a maximum potential indemnification amount. Indemnity amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. As a result, the Company is unable to reasonably estimate its total maximum potential liability in respect of indemnification provisions. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Note 19. Restructuring and Other Related Costs

The Company recorded additional charges related to store closures of approximately $44 million year to date, primarily related to the closure of the remaining Joe Fresh retail location in the U.S. No charges were incurred in the third quarter of 2016. In 2015, the Company finalized a plan to close approximately 52 unprofitable retail locations across a range of banners and formats. In the third quarter and year-to-date 2015, the Company recorded in selling, general and administrative expenses $86 million and $131 million, respectively, of restructuring and other related costs pertaining to this initiative. As at October 8, 2016, the Company had substantially completed the store closures.

In 2015, the Company began actively marketing the sale of certain assets of the Shoppers Drug Mart ancillary healthcare business and recorded asset impairments on these assets and other related restructuring charges. In the second quarter of 2016, the Company signed agreements for the sale of a portion of these assets. No further charges related to these assets were recorded in 2016. In the second quarter, the Company ceased actively marketing the remaining assets and restructured those assets as part of ongoing operations. As a result, the Company recorded a charge of $4 million related to inventory impairment and reversed $8 million of previous asset impairments and other related restructuring charges in the second quarter of 2016.

Note 20. Segment Information

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and 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 that are 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 8, 2016 (16 weeks)					October 10, 2015 (16 weeks)				
(millions of Canadian dollars)	**Retail**	**Financial Services(3)**	**Choice Properties(3)**	**Consolidation and Eliminations(i)**	**Total**	Retail	Financial Services(3)	Choice Properties(3)	Consolidation and Eliminations(i)	Total
Revenue(ii)	**$13,891**	**$ 229**	**$ 196**	**$ (173)**	**$14,143**	$13,715	$ 211	$ 187	$ (167)	$ 13,946
EBITDA(iii)	**$ 1,098**	**$ 44**	**$ 186**	**$ (174)**	**$ 1,154**	$ 889	$ 39	$ 136	$ (129)	$ 935
Adjusting Items(iii)	**(11)**	**—**	**—**	**—**	**(11)**	87	—	—	—	87
Adjusted EBITDA(iii)	**$ 1,087**	**$ 44**	**$ 186**	**$ (174)**	**$ 1,143**	$ 976	$ 39	$ 136	$ (129)	$ 1,022
Depreciation and Amortization(iv)	**292**	**3**	**1**	**4**	**300**	306	2	1	4	313
Adjusted Operating Income(iii)	**$ 795**	**$ 41**	**$ 185**	**$ (178)**	**$ 843**	$ 670	$ 37	$ 135	$ (133)	$ 709
Net interest expense and other financing charges	**$ 99**	**$ 13**	**$ (28)**	**$ 48**	**$ 132**	$ 108	$ 14	$ 308	$ (225)	$ 205

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $130 million (2015 – $127 million) of rental revenue and $43 million (2015 – $40 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Adjusted operating income includes the elimination of the $130 million (2015 – $127 million) impact of rental revenue described above; the elimination of a $44 million gain (2015 – $1 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets or Investment Properties by the Company and measured at cost; the recognition of $4 million (2015 – $4 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of nil (2015 – $1 million).
- Net interest expense and other financing charges includes the elimination of $69 million (2015 – $64 million) of interest expense included in Choice Properties related to debt owing to the Company and a $124 million fair value gain (2015 – loss of $221 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 $13 million (2015 – $11 million), which excludes distributions paid to the Company and a $20 million fair value gain (2015 – $49 million loss) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $97 million (2015 – $93 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 (2015 – $164 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

	October 8, 2016 (40 weeks)					October 10, 2015 (40 weeks)				
(millions of Canadian dollars)	Retail	Financial Services(3)	Choice Properties(3)	Consolidation and Eliminations(i)	Total	Retail	Financial Services(3)	Choice Properties(3)	Consolidation and Eliminations(i)	Total
Revenue(ii)	$34,539	$ 650	$ 586	$ (520)	$35,255	$33,863	$ 609	$ 552	$ (495)	$ 34,529
EBITDA(iii)	$ 2,667	$ 132	$ 433	$ (411)	$ 2,821	$ 2,362	$ 122	$ 378	$ (361)	$ 2,501
Adjusting Items(iii)	75	—	—	—	$ 75	167	—	—	—	$ 167
Adjusted EBITDA(iii)	$ 2,742	$ 132	$ 433	$ (411)	$ 2,896	$ 2,529	$ 122	$ 378	$ (361)	$ 2,668
Depreciation and Amortization(iv)	746	9	1	11	$ 767	786	7	1	10	$ 804
Adjusted Operating Income(iii)	$ 1,996	$ 123	$ 432	$ (422)	$ 2,129	$ 1,743	$ 115	$ 377	$ (371)	$ 1,864
Net interest expense and other financing charges	$ 256	$ 38	$ 911	$ (680)	$ 525	$ 285	$ 42	$ 572	$ (396)	$ 503

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $387 million (2015 – $374 million) of rental revenue and $133 million (2015 – $121 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Adjusted operating income includes the elimination of the $387 million (2015 – $374 million) impact of rental revenue described above; the elimination of a $7 million gain (2015 – $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 elimination of a $14 million gain (2015 – nil) recognized by Choice Properties related to the fair value adjustments on investment properties in the joint venture; $11 million (2015 – $10 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of $3 million (2015 – $3 million).
- Net interest expense and other financing charges includes the elimination of $199 million (2015 – $188 million) of interest expense included in Choice Properties related to debt owing to the Company and a $637 million fair value loss (2015 – loss of $315 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 $36 million (2015 – $33 million), which excludes distributions paid to the Company and a $120 million fair value loss (2015 – loss of $74 million) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $286 million (2015 – $274 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 $411 million (2015 – $412 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	**As at October 8, 2016**	As at October 10, 2015	As at January 2, 2016
Total Assets			
Retail	**$ 29,445**	$ 29,833	$ 29,936
Financial Services(i)	**3,348**	3,508	3,267
Choice Properties(i)	**9,156**	8,603	8,906
Consolidation and Eliminations(ii)	**(8,386)**	(7,903)	(8,170)
Total	**$ 33,563**	$ 34,041	$ 33,939

(i) For segment presentation purposes, the balances are as at September 30, 2016, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to October 8, 2016 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 8, 2016 (16 weeks)	October 10, 2015 (16 weeks)	October 8, 2016 (40 weeks)	October 10, 2015 (40 weeks)
Additions to Fixed Assets and Intangible Assets				
Retail	**$ 287**	$ 299	**$ 593**	$ 700
Financial Services[(i)]	**2**	5	**7**	10
Choice Properties[(i)]	**94**	64	**271**	297
Consolidation and Eliminations[(ii)]	**—**	(12)	**(117)**	(199)
Total	**$ 383**	$ 356	**$ 754**	$ 808

(i) For segment presentation purposes, the results are for the periods ended September 30, 2016 and September 30, 2015, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to October 8, 2016 and 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 8, 2016 and October 10, 2015 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2016 (16 weeks)**	2015 (16 weeks)
Consolidated Results of Operations		
Revenue	**$ 14,143**	$ 13,946
Revenue growth	**1.4%**	2.6%
Adjusted EBITDA[(2)]	**$ 1,143**	$ 1,022
Adjusted EBITDA margin[(2)]	**8.1%**	7.3%
Net interest expense and other financing charges	**$ 132**	$ 205
Adjusted net interest expense and other financing charges[(2)]	**152**	152
Net earnings	**415**	164
Net earnings attributable to shareholders of the Company	**422**	170
Net earnings available to common shareholders of the Company	**419**	166
Adjusted net earnings available to common shareholders of the Company[(2)]	**512**	408
Retail debt to rolling year retail adjusted EBITDA[(2)]	**1.8x**	2.0x
Rolling year adjusted return on equity[(2)]	**12.6%**	11.4%
Rolling year adjusted return on capital[(2)]	**8.5%**	7.7%
Consolidated Financial Position and Cash Flows		
Cash and cash equivalents, short term investments and security deposits	**$ 1,470**	$ 1,532
Cash flows from operating activities	**1,112**	1,068
Capital investments	**383**	356
Free cash flow[(2)]	**564**	578
Consolidated Per Common Share ($)		
Diluted net earnings	**$ 1.03**	$ 0.40
Adjusted diluted net earnings[(2)]	**1.26**	0.98
Retail Results of Operations		
Sales	**$ 13,891**	$ 13,715
Gross profit	**3,718**	3,560
Adjusted gross profit[(2)]	**3,714**	3,560
Adjusted EBITDA[(2)]	**1,087**	976
Adjusted EBITDA margin[(2)]	**7.8%**	7.1%
Depreciation and amortization	**456**	470
Retail Operating Statistics		
Food retail same-store sales growth	**0.8%**	1.3%
Drug retail same-store sales growth	**2.8%**	4.9%
Total retail square footage (in millions)	**69.8**	70.0
Number of corporate stores	**566**	604
Number of franchise stores	**525**	529
Number of Associate-owned drug stores	**1,324**	1,307
Financial Services Results of Operations[(3)]		
Revenue	**$ 229**	$ 211
Adjusted EBITDA[(2)]	**44**	39
Earnings before income taxes	**28**	23
Financial Services Operating Measures and Statistics[(3)]		
Average quarterly net credit card receivables	**$ 2,730**	$ 2,604
Credit card receivables	**2,769**	2,663
Allowance for credit card receivables	**53**	51
Annualized yield on average quarterly gross credit card receivables	**13.6%**	13.6%
Annualized credit loss rate on average quarterly gross credit card receivables	**4.5%**	4.4%
Choice Properties Results of Operations[(3)]		
Revenue	**$ 196**	$ 187
Adjusted EBITDA[(2)]	**186**	136
Net interest expense and other financing charges	**(28)**	308
Adjusted funds from operations[(2)]	**82**	79

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120 of the Company's 2015 Annual Report.

(2) See Section 12 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis for the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.

(3) The results for the Financial Services and Choice Properties segments are for the periods ended September 30, 2016 and September 30, 2015, consistent with the segments' fiscal calendars. Adjustments to align Financial Services' and Choice Properties' results to October 8, 2016 and October 10, 2015 are included in Consolidation and Eliminations. See Section 12 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis and Note 20 "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, retail banking, credit card services, insurance and wireless mobile products and services. With more than 2,400 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 1,000 grocery stores that span the value spectrum from discount to specialty; full-service pharmacies at more than 1,300 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

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

Investor Relations

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Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank. The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the "Investors" 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 16, 2016 at 9:00 a.m. (ET).

To access via tele-conference, please dial (416) 204-9271. The playback will be made available approximately two hours after the event at (647) 436-0148, access code: 9000693. To access via audio webcast, please go to the "Investors" section of loblaw.ca. 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

COMPANIES LIMITED

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