Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the Company's second quarter 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 second 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 July 26, 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 proceeds related to the Fort McMurray wildfire, 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 June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)		**2016 (12 weeks)**		2015 (12 weeks)
Consolidated:				
Revenue growth		**1.9%**		2.2%
Adjusted EBITDA[(2)]	**$**	**924**	$	857
Adjusted EBITDA margin[(2)]		**8.6%**		8.1%
Net earnings attributable to shareholders of the Company	**$**	**161**	$	185
Net earnings available to common shareholders of the Company		**158**		185
Adjusted net earnings available to common shareholders of the Company[(2)]		**412**		350
Diluted net earnings per common share ($)	**$**	**0.39**	$	0.44
Adjusted diluted net earnings per common share[(2)] ($)	**$**	**1.01**	$	0.84
Cash and cash equivalents, short term investments and security deposits	**$**	**1,237**	$	1,344
Cash flows from operating activities		**733**		930
Free cash flow[(2)]		**432**		589
Retail debt to rolling year retail adjusted EBITDA[(2)]		**1.8x**		2.2x
Rolling year adjusted return on equity[(2)]		**12.0%**		11.1%
Rolling year adjusted return on capital[(2)]		**8.1%**		7.6%
Retail Segment:				
Food retail same-store sales growth		**0.4%**		2.1%
Drug retail same-store sales growth		**4.0%**		3.8%
Adjusted gross profit[(2)]	**$**	**2,826**	$	2,719
Adjusted gross profit %[(2)]		**26.9%**		26.4%
Adjusted EBITDA[(2)]	**$**	**875**	$	814
Adjusted EBITDA margin[(2)]		**8.3%**		7.9%
Financial Services Segment[(4)]:				
Adjusted EBITDA[(2)]	**$**	**44**	$	38
Earnings before income taxes		**29**		22
Annualized yield on average quarterly gross credit card receivables		**13.6%**		13.7%
Annualized credit loss rate on average quarterly gross credit card receivables		**4.5%**		4.7%
Choice Properties Segment[(4)]:				
Adjusted EBITDA[(2)]	**$**	**111**	$	115
Adjusted funds from operations[(2)]		**83**		77

3. Consolidated Results of Operations

For the periods ended June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	$ Change	% Change	**2016 (24 weeks)**	2015 (24 weeks)	$ Change	% Change
Revenue	**$ 10,731**	$ 10,535	$ 196	1.9 %	**$ 21,112**	$ 20,583	$ 529	2.6 %
Adjusted EBITDA(2)	**924**	857	67	7.8 %	**1,753**	1,646	107	6.5 %
Adjusted EBITDA margin(2)	**8.6%**	8.1%			**8.3%**	8.0%		
Depreciation and amortization(i)	**$ 223**	$ 245	$ (22)	(9.0)%	**$ 467**	$ 491	$ (24)	(4.9)%
Net interest expense and other financing charges	**236**	106	130	122.6 %	**393**	298	95	31.9 %
Adjusted net interest expense and other financing charges(2)	**128**	131	(3)	(2.3)%	**253**	262	(9)	(3.4)%
Adjusted income taxes(2)	**163**	130	33	25.4 %	**291**	241	50	20.7 %
Adjusted income tax rate(2)	**28.4%**	27.0%			**28.2%**	27.0%		
Net earnings attributable to shareholders of the Company	**$ 161**	$ 185	$ (24)	(13.0)%	**$ 357**	$ 331	$ 26	7.9 %
Net earnings available to common shareholders of the Company(ii)	**158**	185	(27)	(14.6)%	**351**	331	20	6.0 %
Adjusted net earnings available to common shareholders of the Company(2)	**412**	350	62	17.7 %	**750**	651	99	15.2 %
Diluted net earnings per common share ($)	**$ 0.39**	$ 0.44	$ (0.05)	(11.4)%	**$ 0.85**	$ 0.79	$ 0.06	7.6 %
Adjusted diluted net earnings per common share(2) ($)	**1.01**	0.84	0.17	20.2 %	**1.82**	1.56	0.26	16.7 %
Diluted weighted average common shares outstanding (millions)	**409.9**	416.7			**411.5**	416.7		

(i) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $123 million (2015 – $124 million) and $247 million (2015 – $248 million) of amortization of intangible assets acquired with Shoppers Drug Mart for the second 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 second quarter of 2016 were $412 million ($1.01 per common share), an increase of $62 million ($0.17 per common share) compared to the second quarter of 2015, primarily due to the following:

- improved performance in the Retail segment, which included achieving positive same-store sales, maintaining a stable gross margin, and delivering operational efficiencies in selling, general and administrative expenses ("SG&A");
- the positive contribution from incremental net synergies of $30 million;
- improved performance in the Financial Services segment, driven by the growth in credit card receivables and Mobile Shop sales;
- the favourable impact of a decrease in depreciation and amortization of $22 million as a result of a change in the estimated useful life of certain equipment and fixtures; partially offset by
- an impact of an increase in the adjusted income tax rate(2) primarily due to an increase in the Alberta statutory corporate income tax rate and an increase in certain other non-deductible items.

Net earnings available to common shareholders of the Company in the second quarter of 2016 were $158 million ($0.39 per common share), a decrease of $27 million ($0.05 per common share) compared to the second quarter of 2015. Despite of the impact of the items described above, the decrease in net earnings available to common shareholders of the Company included the year-over-year impact of the following significant items:

- the unfavourable impact of an increase in net interest expense and other financing charges, primarily due to the fair value adjustment to the Trust Unit Liability of $141 million ($0.34 per common share); partially offset by
- a prior year charge related to a statutory corporate income tax rate change of $38 million ($0.09 per common share); and
- the favourable impact of a decrease in restructuring and other related costs of $11 million ($0.01 per common share).

Year-to-date adjusted net earnings available to common shareholders of the Company[(2)] were $750 million ($1.82 per common share), an increase of $99 million ($0.26 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 of $58 million;
- the favourable impact of a decrease of $9 million in adjusted net interest expense and other financing charges[(2)] due to lower debt;
- the favourable impact of a decrease in depreciation and amortization of $24 million as a result of a change in the estimated useful life of certain equipment and fixtures; partially offset by
- an impact of an increase in the adjusted income tax rate[(2)] primarily due to an increase in Alberta statutory corporate income tax rate and an increase in certain other non-deductible items.

Year-to-date net earnings available to common shareholders of the Company were $351 million ($0.85 per common share) in 2016, an increase of $20 million ($0.06 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:

- a prior year charge related to a statutory corporate income tax rate change of $35 million ($0.08 per common share); partially offset by
- the unfavourable impact of an increase in net interest expense and other financing charges, primarily due to the fair value adjustment to the Trust Unit Liability of $115 million ($0.28 per common share).

Revenue

For the periods ended June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	$ Change	% Change	**2016 (24 weeks)**	2015 (24 weeks)	$ Change	% Change
Retail	**$ 10,494**	$ 10,318	$ 176	1.7%	**$ 20,648**	$ 20,148	$ 500	2.5%
Financial Services	**214**	199	15	7.5%	**421**	398	23	5.8%
Choice Properties	**198**	183	15	8.2%	**390**	365	25	6.8%
Consolidation and Eliminations	**(175)**	(165)	(10)		**(347)**	(328)	(19)	
Revenue	**$ 10,731**	$ 10,535	$ 196	1.9%	**$ 21,112**	$ 20,583	$ 529	2.6%

Revenue was $10,731 million in the second quarter of 2016, an increase of $196 million compared to the second quarter of 2015, primarily driven by a $176 million increase in Retail segment sales. Excluding the consolidation of franchises, Retail segment sales increased by $106 million due to positive same-store sales growth. Food retail same-store sales growth was 0.4% (2015 – 2.1%) and excluding gas bar was 0.7% (2015 – 3.3%[(5)]). In the second quarter of 2016, the timing of Easter had a negative impact on Food retail same-store sales growth of 1.0%. Drug retail same-store sales growth was 4.0% (2015 – 3.8%). The timing of Easter had a negative impact on Drug retail same-store sales growth of approximately 1.0%.

Year-to-date revenue was $21,112 million in 2016, an increase of $529 million compared to the same period in 2015, primarily driven by a $500 million increase in Retail segment sales. Excluding the consolidation of franchises, Retail segment sales increased by $366 million due to positive same-store sales growth. Food retail same-store sales growth was 1.2% (2015 – 2.0%) and excluding gas bar was 1.6% (2015 – 3.2%[(5)]). Drug retail same-store sales growth was 5.1% (2015 – 3.4%).

Adjusted EBITDA(2)

For the periods ended June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	$ Change	% Change	**2016 (24 weeks)**	2015 (24 weeks)	$ Change	% Change
Retail	**$ 875**	$ 814	$ 61	7.5 %	**$ 1,655**	$ 1,553	$ 102	6.6%
Financial Services	**44**	38	6	15.8 %	**88**	83	5	6.0%
Choice Properties	**111**	115	(4)	(3.5)%	**247**	242	5	2.1%
Consolidation and Eliminations	**(106)**	(110)	4		**(237)**	(232)	(5)	
Adjusted EBITDA(2)	**$ 924**	$ 857	$ 67	7.8 %	**$ 1,753**	$ 1,646	$ 107	6.5%

Adjusted EBITDA(2) was $924 million in the second quarter of 2016, an increase of $67 million compared to the second quarter of 2015, primarily driven by the Retail segment. Excluding the consolidation of franchises, the increase in the Retail segment was primarily driven by higher sales, an increase in gross profit percentage, the positive impact of $30 million (2015 – $45 million) in incremental net synergies, and an improvement in SG&A as a percentage of sales.

Year-to-date adjusted EBITDA(2) was $1,753 million in 2016, an increase of $107 million compared to the same period in 2015, primarily driven by the Retail segment. Excluding the consolidation of franchises, the increase was primarily driven by higher sales, an increase in gross profit percentage, the positive impact of $58 million (2015 – $89 million) in incremental net synergies, and an improvement in SG&A as a percentage of sales.

As of the end of the second quarter of 2016, the Company has achieved its target of annualized synergies of $300 million since the acquisition of Shoppers Drug Mart.

Depreciation and Amortization Depreciation and amortization was $346 million in the second quarter of 2016, a decrease of $23 million compared to the second quarter of 2015. Excluding the impact of the amortization of intangible assets acquired from Shoppers Drug Mart, depreciation and amortization decreased by $22 million, primarily attributable to a change in the estimated useful life of certain equipment and fixtures.

Year-to-date depreciation and amortization was $714 million in 2016, a decrease of $25 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 $24 million, primarily attributable to a change in the estimated useful life of certain equipment and fixtures and lower depreciation in older supply chain assets.

Net Interest Expense and Other Financing Charges

For the periods ended June 18, 2016 and June 20, 2015 (millions of Canadian dollars)	**2016 (12 weeks)**	2015 (12 weeks)	**2016 (24 weeks)**	2015 (24 weeks)
Net interest expense and other financing charges	**$ 236**	$ 106	**$ 393**	$ 298
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**(108)**	33	**(140)**	(25)
Accelerated amortization of deferred financing costs	**—**	(8)	**—**	(11)
Adjusted net interest expense and other financing charges(2)	**$ 128**	$ 131	**$ 253**	$ 262

Adjusted net interest expense and other financing charges(2) were $128 million in the second quarter of 2016, a decrease of $3 million compared to the second quarter of 2015, primarily driven by the following factors:

- lower interest expense on long term debt due to repayments and maturities of Retail segment debt, partially offset by an increase in Choice Properties Real Estate Investment Trust ("Choice Properties") segment debt; and
- a decrease in interest expense on capital securities due to their repayment at par in the third quarter of 2015.

Net interest expense and other financing charges were $236 million in the second quarter of 2016, an increase of $130 million compared to the second quarter of 2015. The increase in net interest expense and other financing charges was primarily due to the impact of the fair value adjustment to Trust Unit Liability of $141 million, partially offset by the items described above.

Year-to-date adjusted net interest expense and other financing charges(2) were $253 million in 2016, a decrease of $9 million compared to the same period in 2015, primarily driven by the following factors:

- lower interest expense on long term debt due to repayments and maturities of Retail segment debt, partially offset by a net increase in Choice Properties segment debt; and
- a decrease in interest expense on capital securities due to their repayment at par in the third quarter of 2015.

Net interest expense and other financing charges were $393 million in 2016, an increase of $95 million compared to the the same period in 2015. The increase in net interest expense and other financing charges was primarily due to the fair value adjustment to Trust Unit Liability of $115 million, partially offset by the items described above.

Income Taxes

For the periods ended June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	**2016 (24 weeks)**	2015 (24 weeks)
Adjusted operating income(2)	**$ 701**	$ 612	**$ 1,286**	$ 1,155
Adjusted net interest expense and other financing charges(2)	**128**	131	**253**	262
Adjusted earnings before taxes(2)	**$ 573**	$ 481	**$ 1,033**	$ 893
Income taxes	**$ 125**	$ 121	**$ 217**	$ 197
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	**38**	47	**77**	82
Statutory corporate income tax rate change	**—**	(38)	**(3)**	(38)
Adjusted income taxes(2)	**$ 163**	$ 130	**$ 291**	$ 241
Effective tax rate	**44.5%**	39.4%	**38.8%**	37.2%
Adjusted income tax rate(2)	**28.4%**	27.0%	**28.2%**	27.0%

The effective tax rate in the second quarter of 2016 was 44.5% compared to 39.4% in the second quarter of 2015. The increase in the effective tax rate was primarily attributable to:

- an increase in the non-deductible fair value adjustment to the Trust Unit Liability;
- an 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; and
- an increase in certain other non-deductible items; partially offset by,
- a decrease in deferred tax expense resulting from a prior year charge related to the re-measurement of deferred tax liabilities resulting from the increase in the Alberta statutory corporate income tax rate.

The adjusted income tax rate(2) in the second quarter was 28.4% compared to 27.0% in the second quarter of 2015. The increase in the adjusted income tax rate(2) was primarily attributable to the increase in current tax resulting from the increase in the Alberta statutory corporate income tax rate and an increase in certain non-deductible items.

The effective tax rate year-to-date was 38.8% compared to 37.2% for the same period in 2015. The increase in the year-to-date effective tax rate was primarily attributable to:

- an increase in the non-deductible fair value adjustment to the Trust Unit Liability;
- an increase in current tax as a result of an increase in the Alberta statutory corporate income tax rate; and
- an increase in certain other non-deductible items; partially offset by,
- 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, partially offset by a increase in deferred tax expense in the first quarter of 2016 resulting from the increase in the New Brunswick statutory corporate income tax rate, as described below.

In the first quarter of 2016, the Government of New Brunswick announced a 2% increase in the provincial statutory corporate income tax rate from 12.0% to 14.0%. 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.

The adjusted income tax rate(2) year-to-date was 28.2% compared to 27.0% for the same period in 2015. The increase in the adjusted income tax rate(2) was primarily attributable to the increase in current tax resulting from the increase in the Alberta statutory corporate income tax rate and an increase in certain non-deductible items.

4. Reportable Operating Segments Results of Operations

4.1 Retail Segment

For the periods ended June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	$ Change	% Change	**2016 (24 weeks)**	2015 (24 weeks)	$ Change	% Change
Sales	**$ 10,494**	$ 10,318	$ 176	1.7 %	**$ 20,648**	$ 20,148	$ 500	2.5 %
Gross profit	**2,811**	2,711	100	3.7 %	**5,587**	5,335	252	4.7 %
Adjusted gross profit(2)	**2,826**	2,719	107	3.9 %	**5,603**	5,343	260	4.9 %
Adjusted gross profit %(2)	**26.9%**	26.4%			**27.1%**	26.5%		
Adjusted EBITDA(2)	**$ 875**	$ 814	$ 61	7.5 %	**$ 1,655**	$ 1,553	$ 102	6.6 %
Adjusted EBITDA margin(2)	**8.3%**	7.9%			**8.0%**	7.7%		
Depreciation and amortization	**$ 339**	$ 364	$ (25)	(6.9)%	**$ 701**	$ 728	$ (27)	(3.7)%

For the periods ended June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**		2015 (12 weeks)		**2016 (24 weeks)**		2015 (24 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales	**Sales**	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 7,718**	**0.4%**	$ 7,629	2.1%	**$ 15,108**	**1.2%**	$ 14,863	2.0%
Drug retail	**2,776**	**4.0%**	2,689	3.8%	**5,540**	**5.1%**	5,285	3.4%
Pharmacy	**1,324**	**3.6%**	1,274	3.9%	**2,637**	**3.9%**	2,531	3.7%
Front Store	**1,452**	**4.3%**	1,415	3.7%	**2,903**	**6.3%**	2,754	3.2%

Overall Retail Segment Performance Adjusted EBITDA(2) improved by $61 million in the second quarter of 2016 and $102 million year-to-date, primarily driven by higher sales, incremental net synergies, and improvements in SG&A as a percentage of sales.

Sales Retail sales were $10,494 million in the second quarter of 2016 compared to $10,318 million in the second quarter of 2015, an increase of $176 million, primarily driven by the following factors:

- Food retail same-store sales growth was 0.7% (2015 –3.3%(5)) for the quarter, after excluding gas bar (0.3%). Including gas bar, Food retail same-store sales growth was 0.4% (2015 – 2.1%). The timing of Easter had a negative impact of approximately 1.0%.
    - The Company's Food retail average quarterly internal food price index was slightly lower than (2015 – higher than) the average quarterly national food price inflation of 1.8% (2015 – 3.9%), as measured by The Consumer Price Index for Food Purchased from Stores ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores.
    - Sales growth in food was modest;
    - Sales growth in pharmacy and health and beauty was moderate; and
    - Sales in gas bar declined significantly, primarily driven by a decline in gas prices.
- Drug retail same-store sales growth was 4.0% (2015 – 3.8%). The timing of Easter had a negative impact on same-store sales of approximately 1.0%.
    - Same-store pharmacy sales growth was 3.6% (2015 – 3.9%);
        - the number of prescriptions dispensed increased by 3.6% (2015 – 4.3%). On a same-store basis, the number of prescriptions dispensed increased by 3.3% (2015 – 5.0%) and year-over-year, the average prescription value increased by 0.4% (2015 – decrease by 0.5%).
    - Same-store front store sales growth was 4.3% (2015 – 3.7%), with growth in all front store categories.

- The Company's store closure plan announced in 2015 had a negative impact on sales of approximately $75 million.
- 40 food and drug stores were opened and 71 food and drug stores were closed in the 12 months ended June 18, 2016, resulting in a decrease in Retail net square footage of 0.4 million square feet, or 0.6%, primarily driven by the Company's store closure plan announced in 2015.

On a year-to-date basis, retail sales were $20,648 million, an increase of $500 million compared to the same period in 2015. Year-to-date Food retail sales of $15,108 million were higher by $245 million, or 1.6%. Drug retail sales of $5,540 million were higher by $255 million, or 4.8%. Year-to-date Food retail same-store sales growth was 1.6%, after excluding gas bar (0.4%). Including gas bar, Food retail same-store sales growth was 1.2% (2015 – 2.0%). Year-to-date Drug retail same-store sales growth was 5.1%, driven by same-store sales pharmacy sales growth of 3.9% (2015 – 3.7%) and same-store front store sales growth of 6.3% (2015 – 3.2%).

Adjusted gross profit(2), adjusted gross profit percentage(2) and adjusted EBITDA(2) in the second quarter of 2016 and year-to-date included the impacts of the consolidation of franchises in the quarter, as set out in "Other Retail Business Matters".

Adjusted Gross Profit(2) Adjusted gross profit(2) was $2,826 million in the second quarter of 2016 compared to $2,719 million in the second quarter of 2015. Adjusted gross profit percentage(2) of 26.9% increased by 50 basis points compared to the second quarter of 2015. Excluding the consolidation of franchises, the adjusted gross profit percentage(2) was 26.4%, an increase of 10 basis points compared to the second quarter of 2015, driven by the achievement of operational synergies and strong Drug retail front store margins, partially offset by Food retail promotional investment.

Year-to-date adjusted gross profit(2) was $5,603 million compared to $5,343 million, an increase of $260 million compared to the same period in 2015 and adjusted gross profit percentage(2) was 27.1% compared to 26.5% in the same period in 2015. Excluding the consolidation of franchises, the adjusted gross profit percentage(2) was 26.7%, an increase of 20 basis points compared to the same period in 2015, primarily driven by the achievement of operational synergies, strong Drug retail front store margins and stable Food retail margins.

Adjusted EBITDA(2) Adjusted EBITDA(2) was $875 million in the second quarter of 2016 compared to $814 million in the second quarter of 2015, an increase of $61 million, or 7.5%, driven by the increase in adjusted gross profit(2) described above, partially offset by an increase in SG&A of $46 million. SG&A as a percentage of sales was 18.6%, an increase of 10 basis points compared to the second quarter of 2015. Excluding the consolidation of franchises, SG&A as a percentage of sales was 18.0%, an improvement of 40 basis points compared to the second quarter of 2015, driven by the positive impact of the Company's store closure plan announced in 2015 and operational efficiencies in retail stores.

Year-to-date adjusted EBITDA(2) was $1,655 million, compared to $1,553 million in the same period in 2015, an increase of $102 million, or 6.6%, driven by the increase in the year-to-date adjusted gross profit(2) described above, partially offset by an increase in SG&A of $158 million. SG&A as a percentage of sales was 19.1%, an increase of 30 basis points compared to the same period in 2015. Excluding the consolidation of franchises, SG&A as a percentage of sales, was 18.6%, an improvement of 20 basis points compared to the same period in 2015, driven by the positive impact of the Company's store closure plan announced in 2015 and operational efficiencies in retail stores.

Depreciation and Amortization Depreciation and amortization was $339 million in the second quarter of 2016, a decrease of $25 million compared to the second quarter of 2015. Excluding the impact of the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $123 million (2015 – $124 million), depreciation and amortization decreased by $24 million, primarily attributable to a change in the estimated useful life of certain equipment and fixtures.

Year-to-date depreciation and amortization was $701 million, compared to $728 million, a decrease of $27 million compared to the same period in 2015. Excluding the impact of the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $247 million (2015 – $248 million), depreciation and amortization decreased by $26 million, primarily attributable to a change in the estimated useful life of certain equipment and fixtures and lower depreciation of older supply chain assets.

Other Retail Business Matters

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.

Consolidation of Franchises The Company has more than 500 franchise stores in its network. As of the end of the second quarter of 2016, 132 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 second quarter of 2016 and year-to-date, and the total impact of the consolidated franchises:

(millions of Canadian dollars unless where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	**2016 (24 weeks)**	2015 (24 weeks)
Number of Consolidated Franchise stores, beginning of period	**115**	—	**85**	—
Add: Number of Consolidated Franchise stores in the period	**17**	16	**47**	16
Number of Consolidated Franchise stores, end of period	**132**	16	**132**	16
Sales	**$ 75**	$ 5	**$ 139**	$ 5
Gross Profit	**75**	5	**134**	5
Adjusted gross profit[2]	**75**	5	**134**	5
Adjusted EBITDA[2]	**(1)**	(2)	**(7)**	(2)
Depreciation and amortization	**4**	—	**8**	—
Net income (loss) attributable to Non-Controlling Interest	**(5)**	1	**(14)**	1

The Company expects that the impact in 2016 of new and current consolidated franchises will be incremental revenue of approximately $320 million, an increase to adjusted EBITDA[2] of approximately $20 million and an increase in depreciation and amortization of approximately $15 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 approximately $12 million related to inventory losses, site clean-up and restoration costs at these locations. An insurance claim is in progress and proceeds are expected to be recorded as the claim progresses.

The Company estimates the financial impact to the Company's results in the second quarter of 2016 from the temporary closure of these retail locations as follows: a decrease in sales of approximately $25 million and a decrease in adjusted EBITDA[2] of approximately $6 million. The Company maintains business interruption insurance and expects that certain losses will be recoverable under this insurance coverage.

Restructuring and Other Related costs In the second quarter of 2016, the Company recorded an additional charge related to store closures of approximately $43 million. 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. No further charges related to these assets were recorded in the second quarter of 2016 and year-to-date. The Company expects the annualized impact of the divestiture to be a decrease of 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 June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	$ Change	% Change	2016 (24 weeks)	2015 (24 weeks)	$ Change	% Change
Revenue	**$ 214**	$ 199	$ 15	7.5%	**$ 421**	$ 398	$ 23	5.8%
Adjusted EBITDA(2)	**44**	38	6	15.8%	**88**	83	5	6.0%
Earnings before income taxes	**29**	22	7	31.8%	**57**	50	7	14.0%

(millions of Canadian dollars except where otherwise indicated)	As at June 18, 2016	As at June 20, 2015	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,717**	$ 2,585	$ 132	5.1%
Credit card receivables	**2,767**	2,647	120	4.5%
Allowance for credit card receivables	**52**	48	4	8.3%
Annualized yield on average quarterly gross credit card receivables	**13.6%**	13.7%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.5%**	4.7%		

Revenue Revenue was $214 million in the second quarter of 2016, an increase of $15 million, compared to the second quarter of 2015, primarily driven by:

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

Year-to-date revenue was $421 million, an increase of $23 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 the second quarter of 2015; and
- higher Mobile Shop sales.

Adjusted EBITDA(2) Adjusted EBITDA(2) was $44 million in the second quarter of 2016, an increase of $6 million, compared to the second 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.

Year-to-date adjusted EBITDA(2) was $88 million, an increase of $5 million, compared to the same period in 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 credit losses due to growth in credit card receivable balances.

Earnings before income taxes Earnings before income taxes were $29 million in the second quarter of 2016, an increase of $7 million compared to the second quarter of 2015, primarily driven by the increase in adjusted EBITDA(2) as described above.

Year-to-date earnings before income taxes were $57 million, an increase of $7 million compared to the same period in 2015, primarily driven by the increase in adjusted EBITDA(2) as described above, partially offset by lower net interest expenses.

Credit Card Receivables As at June 18, 2016, credit card receivables were $2,767 million, an increase of $120 million compared to June 20, 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 June 18, 2016, the allowance for credit card receivables was $52 million, an increase of $4 million compared to June 20, 2015 due to the growth in the credit card receivables portfolio.

4.3 Choice Properties Segment[(4)]

For the periods ended June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	$ Change	% Change	2016 (24 weeks)	2015 (24 weeks)	$ Change	% Change
Revenue	$ 198	$ 183	$ 15	8.2 %	$ 390	$ 365	$ 25	6.8%
Adjusted EBITDA[(2)]	111	115	(4)	(3.5)%	247	242	5	2.1%
Net interest expense and other financing charges	671	(75)	746	994.7 %	939	264	675	255.7%
Adjusted funds from operations[(2)]	83	77	6	7.8 %	166	152	14	9.2%

Revenue Revenue was $198 million in the second quarter of 2016, an increase of $15 million compared to the second quarter of 2015 and included $175 million (2015 – $165 million) generated from tenants within the Retail segment.

Year-to-date revenue was $390 million, an increase of $25 million compared to the same period in 2015 and included $347 million (2015 – $328 million) generated from tenants within the Retail segment.

The increase in revenue in the second 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)] was $111 million in the second quarter of 2016, a decrease of $4 million compared to the second quarter of 2015, primarily driven by:

- the change in fair value adjustment on investment properties; and
- the change in fair value on unit-based compensation; partially offset by
- higher contributions from property operations.

Year-to-date adjusted EBITDA[(2)] was $247 million, an increase of $5 million compared to the same period in 2015, primarily driven by:

- higher contributions from property operations; partially offset by
- the change in fair value adjustment on investment properties; and
- the change in fair value on unit-based compensation.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $671 million in the second quarter of 2016, an increase of $746 million compared to the second quarter of 2015, 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 $939 million, an increase of $675 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)] were $83 million in the second quarter of 2016, an increase of $6 million compared to the second quarter of 2015.

Year-to-date adjusted funds from operations[(2)] were $166 million, an increase of $14 million compared to the same period in 2015.

The increase in adjusted funds from operations[(2)] in the second quarter of 2016 and year-to-date was primarily driven by higher contributions from property operations.

Other Matters In the second quarter of 2016 Choice Properties acquired ten investment properties from the Company for a purchase price of approximately $117 million, excluding acquisition costs, which was fully settled in cash.

Subsequent to the end of the second quarter of 2016, Choice Properties announced an increase in its annual distribution per unit of 6.0% to $0.71 per unit, effective for unitholders of record on July 29, 2016, distribution payable on August 15, 2016.

5. Liquidity and Capital Resources

5.1 Cash Flows

Major Cash Flow Components

For the periods ended June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016** **(12 weeks)**	2015 (12 weeks)	$ Change	% Change	**2016** **(24 weeks)**	2015 (24 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 1,243**	$ 1,013	$ 230	22.7 %	**$ 1,018**	$ 999	$ 19	1.9 %
Cash flows from (used in):								
Operating activities	**733**	930	(197)	(21.2)%	**1,546**	1,447	99	6.8 %
Investing activities	**(156)**	(241)	85	35.3 %	**(290)**	(512)	222	43.4 %
Financing activities	**(606)**	(415)	(191)	(46.0)%	**(1,055)**	(654)	(401)	(61.3)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(4)**	(2)	(2)	(100.0)%	**(9)**	5	(14)	(280.0)%
Cash and cash equivalents, end of period	**$ 1,210**	$ 1,285	$ (75)	(5.8)%	**$ 1,210**	$ 1,285	$ (75)	(5.8)%

Cash Flows from Operating Activities Cash flows from operating activities in the second quarter of 2016 were $733 million, a decrease of $197 million compared to the second quarter of 2015 primarily driven by:

- the change in non-cash working capital driven by a reduction in accounts payable; partially offset by
- higher cash earnings.

Year-to-date cash flows from operating activities were $1,546 million in 2016, an increase of $99 million compared to the same period in 2015. The increase was primarily driven by:

- higher cash earnings;
- an increase in collection on credit cards receivable, driven by the growth in active customer base as discussed in the Financial Services segment; partially offset by
- the change in non-cash working capital driven by a reduction in accounts payable, partially offset by the decrease in accounts receivable and inventories.

Cash Flows used in Investing Activities Cash flows used in investing activities in the second quarter of 2016 were $156 million, a decrease of $85 million compared to the second quarter of 2015, primarily due to the reduction in short term investments. Year-to-date cash flows used in investing activities were $290 million, a decrease of $222 million compared to the same period in 2015, primarily due to the reduction in short term investments and lower net capital investments.

Capital Investments and Store Activity

As at or for the periods ended June 18, 2016 and June 20, 2015	**2016 (24 weeks)**	2015 (24 weeks)	% Change
Capital investments (millions of Canadian dollars)	**$ 371**	$ 452	(17.9)%
Corporate square footage (in millions)	**35.7**	36.6	(2.5)%
Franchise square footage (in millions)	**15.9**	15.7	1.3 %
Associate-owned drug store square footage (in millions)	**18.0**	17.7	1.7 %
Total retail square footage (in millions)	**69.6**	70.0	(0.6)%
Number of corporate stores	**569**	609	(6.6)%
Number of franchise stores	**525**	527	(0.4)%
Number of Associate-owned drug stores	**1,317**	1,306	0.8 %
Total number of stores	**2,411**	2,442	(1.3)%
Percentage of corporate real estate owned	**72%**	72%	
Percentage of franchise real estate owned	**47%**	45%	
Percentage of Associate-owned drug store real estate owned	**1%**	2%	
Average store size (square feet)			
Corporate	**62,700**	60,100	4.3 %
Franchise	**30,300**	29,800	1.7 %
Associate-owned drug store	**13,700**	13,600	0.7 %

Cash Flows used in Financing Activities Cash flows used in financing activities were $606 million in the second quarter of 2016, an increase of $191 million compared to the second quarter of 2015. The increase was primarily driven by cash proceeds from the issuance of preferred shares in the second quarter of 2015 and the repurchase of common shares for cancellation, partially offset by the increase in President's Choice Bank's ("PC Bank's") co-ownership interest held with the Other Independent Securitization Trusts.

Year-to-date cash flows used in financing activities were $1,055 million, an increase of $401 million compared to the same period in 2015. The increase was primarily driven by the repurchase of common shares for cancellation and cash proceeds from the issuance of preferred shares in the second quarter of 2015, partially offset by lower net repayments of long term debt. 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 June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	$ Change	% Change	**2016 (24 weeks)**	2015 (24 weeks)	$ Change	% Change
Free cash flow(2)	**$ 432**	$ 589	$ (157)	(26.7)%	**$ 944**	$ 733	$ 211	28.8%

Free cash flow(2) was $432 million in the second quarter of 2016, a decrease of $157 million compared to the second quarter of 2015, primarily driven by lower cash flows from operating activities as described above, partially offset by lower interest payments. Year-to-date free cash flow(2) was $944 million in 2016, an increase of $211 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 June 18, 2016				As at June 20, 2015				As at January 2, 2016			
(millions of Canadian dollars)	**Retail**	**Financial Services(4)**	**Choice Properties(4)**	**Total**	Retail	Financial Services(4)	Choice Properties(4)	Total	Retail	Financial Services(4)	Choice Properties(4)	Total
Bank indebtedness	**$ 269**	**$ —**	**$ —**	**$ 269**	$ 275	$ —	$ —	$ 275	$ 143	$ —	$ —	$ 143
Short term debt	**—**	**475**	**—**	**475**	—	505	—	505	—	550	—	550
Long term debt due within one year	**56**	**44**	**203**	**303**	572	436	1	1,009	584	112	302	998
Long term debt	**5,995**	**1,439**	**2,985**	**10,419**	6,231	935	2,887	10,053	5,968	1,347	2,698	10,013
Capital securities	**—**	**—**	**—**	**—**	225	—	—	225	—	—	—	—
Certain other liabilities	**32**	**—**	**—**	**32**	28	—	—	28	30	—	—	30
Total debt	**$6,352**	**$ 1,958**	**$ 3,188**	**$11,498**	$7,331	$ 1,876	$ 2,888	$12,095	$6,725	$ 2,009	$ 3,000	$11,734

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 June 18, 2016	As at June 20, 2015	As at January 2, 2016
Retail debt to rolling year retail adjusted EBITDA(2)	**1.8x**	2.2x	2.0x

The Retail segment debt to rolling year retail adjusted EBITDA(2) ratio as at June 18, 2016 and January 2, 2016 decreased compared to June 20, 2015 primarily as a result of adjusted EBITDA(2) growth, targeted debt reduction in 2015 and repayment of $525 million Medium Term Notes ("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 June 18, 2016 and throughout the first half of 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 second 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:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**June 18, 2016 (24 weeks) Principal Amount**	June 20, 2015 (24 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 second quarter 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	**June 18, 2016 (12 weeks) Principal Amount**	June 20, 2015 (12 weeks) Principal Amount	**June 18, 2016 (24 weeks) Principal Amount**	June 20, 2015 (24 weeks) Principal Amount
Loblaw Companies Limited Notes	7.10%	June 1, 2016	**$ 300**	$ —	**$ 300**	$ —
Shoppers Drug Mart Notes	2.01%	May 24, 2016	**225**	—	**225**	—
Choice Properties senior unsecured debentures – Series 5	3.00%	March 7, 2016	**—**	—	**300**	—
Total Debentures and Medium Term Notes repaid			**$ 525**	$ —	**$ 825**	$ —

Unsecured Term Loan Facilities In the second quarter of 2015 and year-to-date, the Company recorded net repayments of $412 million and $619 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 Credit Card Trust®* and Other Independent Securitization Trusts, in accordance with its financing requirements.

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

(millions of Canadian dollars)	**As at June 18, 2016**	As at June 20, 2015	As at January 2, 2016
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust®*	**$ 650**	$ 750	$ 650
Securitized to Other Independent Securitization Trusts	**475**	505	550
Total securitized to independent securitization trusts	**$ 1,125**	$ 1,255	$ 1,200

PC Bank's co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts increased by $125 million (2015 – nil) in the second quarter of 2016 and decreased by $75 million (2015 – $100 million) year-to-date.

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at June 18, 2016 and throughout the first half of 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 June 18, 2016, June 20, 2015 and January 2, 2016 were as follows:

	As at June 18, 2016		As at June 20, 2015		As at January 2, 2016	
(millions of Canadian dollars)	**Available**	**Drawn**	Available	Drawn	Available	Drawn
Loblaw's Committed Credit Facility	**$ 1,000**	**$ —**	$ 1,000	$ —	$ 1,000	$ —
Choice Properties Committed Credit Facility	**500**	**142**	500	86	500	—
Total Committed Lines of Credit	**$ 1,500**	**$ 142**	$ 1,500	$ 86	$ 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. Subsequent to the end of the second 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 June 18, 2016	As at June 20, 2015	As at January 2, 2016
Rolling year adjusted return on equity(2)	**12.0%**	11.1%	11.1%
Rolling year adjusted return on capital(2)(i)	**8.1%**	7.6%	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 June 18, 2016 increased compared to June 20, 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 June 18, 2016 increased compared to June 20, 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 the second quarter of 2015, the Company issued 9.0 million 5.30% non-voting Second Preferred Shares, Series B, with a face value of $225 million. The Second Preferred Shares, Series B were 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:

	June 18, 2016 (12 weeks)		June 20, 2015 (12 weeks)		**June 18, 2016 (24 weeks)**		June 20, 2015 (24 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**407,324,440**	**$ 7,828**	412,604,989	$ 7,872	**409,985,226**	**$ 7,861**	412,480,891	$ 7,860
Issued for settlement of stock options	**183,394**	**8**	371,684	18	**914,608**	**40**	775,882	35
Purchased and cancelled	**(1,970,000)**	**(38)**	(590,388)	(12)	**(5,362,000)**	**(103)**	(870,488)	(17)
Issued and outstanding, end of period	**405,537,834**	**$ 7,798**	412,386,285	$ 7,878	**405,537,834**	**$ 7,798**	412,386,285	$ 7,878
Shares held in trust, beginning of period	**(1,187,318)**	**$ (22)**	(633,682)	$ (9)	**(643,452)**	**$ (10)**	(555,046)	$ (3)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	(167,450)	(4)	**(1,250,000)**	**(24)**	(543,853)	(11)
Released for settlement of RSUs and PSUs	**27,453**	**—**	11,489	1	**733,587**	**12**	309,256	2
Shares held in trust, end of period	**(1,159,865)**	**$ (22)**	(789,643)	$ (12)	**(1,159,865)**	**$ (22)**	(789,643)	$ (12)
Issued and outstanding, net of shares held in trust, end of period	**404,377,969**	**$ 7,776**	411,596,642	$ 7,866	**404,377,969**	**$ 7,776**	411,596,642	$ 7,866
Weighted average outstanding, net of shares held in trust	**406,094,151**		411,978,938		**407,553,460**		411,972,280	

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)	**June 18, 2016 (12 weeks)**	June 20, 2015 (12 weeks)	**June 18, 2016 (24 weeks)**	June 20, 2015 (24 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**1,970,000**	590,388	**5,362,000**	870,488
Cash consideration paid	**$ 132**	$ 38	**$ 363**	$ 55
Premium charged to Retained Earnings	**94**	26	**260**	38
Reduction in Common Share Capital	**38**	12	**103**	17
Common shares repurchased under the NCIB and held in trust (number of shares)	**—**	167,450	**1,250,000**	543,853
Cash consideration paid	**$ —**	$ 11	**$ 90**	$ 35
Premium charged to Retained Earnings	**—**	7	**66**	24
Reduction in Common Share Capital	**—**	4	**24**	11

As part of the Company's focus to return capital to shareholders, during 2016, the Company completed the repurchase and cancellation of 5,362,000 common shares through private agreements for total consideration of $363 million or a weighted average price of $67.74 per share.

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:

	June 18, 2016[(i)] (12 weeks)	June 20, 2015 (12 weeks)	**June 18, 2016 (24 weeks)**	June 20, 2015 (24 weeks)
Dividends declared per share ($):				
Common Share	**$ 0.26**	$ 0.25	**$ 0.51**	$ 0.50
Second Preferred Share, Series A	**$ —**	$ 0.37	**$ —**	$ 0.74
Second Preferred Share, Series B	**$ 0.33**	$ —	**$ 0.66**	$ —

(i) The second quarter dividends for 2016 of $0.26 per share declared on common shares have a payment date of July 1, 2016. The second quarter dividends for 2016 of $0.33 per share declared on Second Preferred Shares, Series B have a payment date of June 30, 2016.

(millions of Canadian dollars)	**June 18, 2016 (12 weeks)**	June 20, 2015 (12 weeks)	**June 18, 2016 (24 weeks)**	June 20, 2015 (24 weeks)
Dividends declared:				
Common Share	**$ 106**	$ 103	**$ 208**	$ 204
Second Preferred Share, Series A[(i)]	**—**	4	**—**	7
Second Preferred Share, Series B	**3**	—	**6**	—
Total dividends declared	**$ 109**	$ 107	**$ 214**	$ 211

(i) For financial statement purposes, Second Preferred Shares, Series A dividends of $4 million in the second quarter of 2015 and $7 million 2015 year-to-date were included as a component of net interest expense and other financing charges.

Subsequent to the end of the second quarter of 2016, the Board of Directors declared a quarterly dividend of $0.26 per common share, payable on October 1, 2016 to shareholders of record on September 15, 2016 and a dividend on the Second Preferred Shares, Series B of $0.33 per share payable on September 30, 2016 to shareholders of record on September 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 the first half of 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 in the first half of 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 the first half of 2016 as set out in 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:

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2016	**2015**	2016	2015	2015	2014	2015	2014
(millions of Canadian dollars except where otherwise indicated)	**(12 weeks)**	**(12 weeks)**	(12 weeks)	(12 weeks)	(12 weeks)	(13 weeks)	(16 weeks)	(16 weeks)
Revenue	**$ 10,731**	**$ 10,535**	$ 10,381	$ 10,048	$ 10,865	$ 11,413	$ 13,946	$ 13,599
Net earnings available to common shareholders of the Company	**158**	**185**	193	146	128	247	166	142
Adjusted net earnings available to common shareholders of the Company[2]	**412**	**350**	338	301	363	396	408	371
Net earnings per common share:								
Basic ($)	**$ 0.39**	**$ 0.45**	$ 0.47	$ 0.35	$ 0.31	$ 0.60	$ 0.40	$ 0.34
Diluted ($)	**0.39**	**0.44**	0.47	0.35	0.31	0.59	0.40	0.34
Adjusted net earnings per common share[2]:								
Basic ($)	**$ 1.01**	**$ 0.85**	$ 0.83	$ 0.73	$ 0.88	$ 0.96	$ 0.99	$ 0.90
Diluted ($)	**1.01**	**0.84**	0.82	0.72	0.87	0.95	0.98	0.89
Average national food price inflation (as measured by CPI)	**1.8%**	**3.9%**	4.3%	4.6%	4.1%	3.5%	3.8%	2.8%
Food retail same-store sales growth	**0.4%**	**2.1%**	2.0%	2.0%	2.4%	2.4%	1.3%	2.6%
Drug retail same-store sales growth	**4.0%**	**3.8%**	6.3%	3.1%	5.0%	3.8%	4.9%	2.5%

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 0.3 million square feet to 69.6 million square feet, primarily driven by the Company's store closure plans announced in the second quarter of 2015.

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, including 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;
- 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 second 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

The Company implemented the amendments to International Accounting Standard 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.

10.1 Significant Accounting Policies

Fixed Assets The Company has 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 June 18, 2016 and June 20, 2015 (millions of Canadian dollars)	**2016 (12 weeks)**	2015 (12 weeks)	**2016 (24 weeks)**	2015 (24 weeks)
Retail segment gross profit	**$ 2,811**	$ 2,711	**$ 5,587**	$ 5,335
Add impact of the following:				
Charges related to retail locations in Fort McMurray	**9**	—	**9**	—
Net impairment reversals related to Drug retail ancillary assets	**4**	—	**4**	—
Restructuring and other related costs	**2**	—	**3**	—
Charge related to apparel inventory	**—**	8	**—**	8
Retail segment adjusted gross profit	**$ 2,826**	$ 2,719	**$ 5,603**	$ 5,343

Charges related to retail locations in Fort McMurray 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".

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 June 18, 2016 and June 20, 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 (12 weeks)					2015 (12 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services[(4)]**	**Choice Properties[(4)]**	**Consolidation and Eliminations**	**Consolidated**	Retail	Financial Services[(4)]	Choice Properties[(4)]	Consolidation and Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					**$ 161**					$ 185
Add (deduct) impact of the following:										
Non-Controlling Interests					**(5)**					1
Net interest expense and other financing charges					**236**					106
Income taxes					**125**					121
Operating income	**$ 475**	**$ 41**	**$ 111**	**$ (110)**	**$ 517**	$ 375	$ 36	$ 115	$ (113)	$ 413
Depreciation and amortization	**339**	**3**	**—**	**4**	**346**	364	2	—	3	369
EBITDA	**$ 814**	**$ 44**	**$ 111**	**$ (106)**	**$ 863**	$ 739	$ 38	$ 115	$ (110)	$ 782
Operating income	**$ 475**	**$ 41**	**$ 111**	**$ (110)**	**$ 517**	$ 375	$ 36	$ 115	$ (113)	$ 413
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**123**	**—**	**—**	**—**	**123**	124	—	—	—	124
Restructuring and other related costs	**43**	**—**	**—**	**—**	**43**	54	—	—	—	54
Charges related to retail locations in Fort McMurray	**12**	**—**	**—**	**—**	**12**	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**10**	**—**	**—**	**—**	**10**	9	—	—	—	9
Net impairment reversals related to Drug retail ancillary assets	**(4)**	**—**	**—**	**—**	**(4)**	—	—	—	—	—
Charge related to apparel inventory	**—**	**—**	**—**	**—**	**—**	8	—	—	—	8
Fixed asset and other related impairments, net of recoveries	**—**	**—**	**—**	**—**	**—**	4	—	—	—	4
Adjusted operating income	**$ 659**	**$ 41**	**$ 111**	**$ (110)**	**$ 701**	$ 574	$ 36	$ 115	$ (113)	$ 612
Depreciation and amortization	**339**	**3**	**—**	**4**	**346**	364	2	—	3	369
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(123)**	**—**	**—**	**—**	**(123)**	(124)	—	—	—	(124)
Adjusted EBITDA	**$ 875**	**$ 44**	**$ 111**	**$ (106)**	**$ 924**	$ 814	$ 38	$ 115	$ (110)	$ 857

(millions of Canadian dollars)	2016 (24 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations	Consolidated	2015 (24 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					$ 357					$ 331
Add (deduct) impact of the following:										
Non-Controlling Interests					(14)					1
Net interest expense and other financing charges					393					298
Income taxes					217					197
Operating income	$ 868	$ 82	$ 247	$ (244)	$ 953	$ 745	$ 78	$ 242	$ (238)	$ 827
Depreciation and amortization	701	6	—	7	714	728	5	—	6	739
EBITDA	$1,569	$ 88	$ 247	$ (237)	$ 1,667	$ 1,473	$ 83	$ 242	$ (232)	$ 1,566
Operating income	$ 868	$ 82	$ 247	$ (244)	$ 953	$ 745	$ 78	$ 242	$ (238)	$ 827
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	247	—	—	—	247	248	—	—	—	248
Restructuring and other related costs	44	—	—	—	44	66	—	—	—	66
Fair value adjustment on fuel and foreign currency contracts	20	—	—	—	20	(3)	—	—	—	(3)
Charges related to retail locations in Fort McMurray	12	—	—	—	12	—	—	—	—	—
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	2	—	—	—	2	7	—	—	—	7
Pension annuities and buy-outs	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	$1,201	$ 82	$ 247	$ (244)	$ 1,286	$ 1,073	$ 78	$ 242	$ (238)	$ 1,155
Depreciation and amortization	701	6	—	7	714	728	5	—	6	739
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(247)	—	—	—	(247)	(248)	—	—	—	(248)
Adjusted EBITDA	$1,655	$ 88	$ 247	$ (237)	$ 1,753	$ 1,553	$ 83	$ 242	$ (232)	$ 1,646

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 and were recognized in SG&A. 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 June 18, 2016 and June 20, 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 (12 weeks)**	2015 (12 weeks)	**2016 (24 weeks)**	2015 (24 weeks)
Net interest expense and other financing charges	**$ 236**	$ 106	**$ 393**	$ 298
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**(108)**	33	**(140)**	(25)
Accelerated amortization of deferred financing costs	**—**	(8)	**—**	(11)
Adjusted net interest expense and other financing charges	**$ 128**	$ 131	**$ 253**	$ 262

Fair value adjustment to the Trust Unit Liability The Company is exposed to market price fluctuations as a result of the Units held by unitholders other than the Company. These Units are presented as a liability on the Company's 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 records charges related to accelerated amortization of deferred financing costs due to early repayments of debt.

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 June 18, 2016 and June 20, 2015 (millions of Canadian dollars except where otherwise indicated)	**2016** **(12 weeks)**	2015 (12 weeks)	**2016** **(24 weeks)**	2015 (24 weeks)
Adjusted operating income[(i)]	**$ 701**	$ 612	**$ 1,286**	$ 1,155
Adjusted net interest expense and other financing charges[(i)]	**128**	131	**253**	262
Adjusted earnings before taxes	**$ 573**	$ 481	**$ 1,033**	$ 893
Income taxes	**$ 125**	$ 121	**$ 217**	$ 197
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes[(ii)]	**38**	47	**77**	82
Statutory corporate income tax rate change	**—**	(38)	**(3)**	(38)
Adjusted income taxes	**$ 163**	$ 130	**$ 291**	$ 241
Effective tax rate	**44.5%**	39.4%	**38.8%**	37.2%
Adjusted income tax rate	**28.4%**	27.0%	**28.2%**	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 an increase to the statutory corporate income tax rate from 12% to 14% effective April 1, 2016 that was enacted in the first quarter. As a result, Loblaw recorded a charge related to the remeasurement of deferred tax assets and 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 June 18, 2016 and June 20, 2015:

($ except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	**2016 (24 weeks)**	2015 (24 weeks)
Diluted weighted average common shares outstanding (millions)	**409.9**	416.7	**411.5**	416.7
Net earnings attributable to shareholders of the Company (millions of Canadian dollars)	**$ 161**	$ 185	**$ 357**	$ 331
Less: Prescribed dividends on preferred shares in share capital (millions of Canadian dollars)	**(3)**	—	**(6)**	—
Net earnings available to common shareholders of the Company (millions of Canadian dollars)	**$ 158**	$ 185	**$ 351**	$ 331
Diluted net earnings per common share	**$ 0.39**	$ 0.44	**$ 0.85**	$ 0.79
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability(i)	**0.26**	(0.08)	**0.34**	0.06
Amortization of intangible assets acquired with Shoppers Drug Mart	**0.23**	0.23	**0.45**	0.44
Restructuring and other related costs	**0.10**	0.11	**0.10**	0.14
Fair value adjustment on fuel and foreign currency contracts	**0.02**	0.02	**0.04**	—
Charges related to retail locations in Fort McMurray	**0.02**	—	**0.02**	—
Net impairment reversals related to Drug retail ancillary assets	**(0.01)**	—	**(0.01)**	—
Statutory corporate income tax rate change	**—**	0.09	**0.01**	0.09
Fixed asset and other related impairments, net of recoveries	**—**	0.01	**—**	0.01
Charge related to apparel inventory	**—**	0.01	**—**	0.01
Accelerated amortization of deferred financing costs	**—**	0.01	**—**	0.02
Prior year tax assessment	**—**	—	**0.02**	—
Adjusted diluted net earnings per common share	**$ 1.01**	$ 0.84	**$ 1.82**	$ 1.56
Adjusted net earnings attributable to shareholders of the Company (millions of Canadian dollars)	**$ 415**	$ 350	**$ 756**	$ 651
Less: Prescribed dividends on preferred shares in share capital (millions of Canadian dollars)	**(3)**	—	**(6)**	—
Adjusted net earnings available to common shareholders of the Company (millions of Canadian dollars)	**$ 412**	$ 350	**$ 750**	$ 651

(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 June 18, 2016 and June 20, 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 (12 weeks)**	2015 (12 weeks)	**2016 (24 weeks)**	2015 (24 weeks)
Cash flows from operating activities	**$ 733**	$ 930	**$ 1,546**	$ 1,447
Less:				
Capital investments	**214**	221	**371**	452
Interest paid	**87**	120	**231**	262
Free cash flow	**$ 432**	$ 589	**$ 944**	$ 733

Choice Properties' Adjusted Funds from Operations The following table reconciles Choice Properties' adjusted funds from operations to GAAP measures for the periods ended June 18, 2016 and June 20, 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 (12 weeks)**	2015 (12 weeks)	**2016 (24 weeks)**	2015 (24 weeks)
Net income (loss)	**$ (560)**	$ 189	**$ (692)**	$ (22)
Fair value adjustments on Class B Limited Partnership units	**580**	(160)	**761**	94
Fair value adjustments on investment properties	**23**	16	**37**	17
Fair value adjustments on unit-based compensation	**4**	—	**5**	—
Fair value adjustments of investment property held in equity accounted joint venture	**—**	—	**(14)**	—
Distributions on Class B Limited Partnership units	**53**	50	**106**	100
Internal expenses for leasing	**2**	1	**2**	1
Funds from Operations	**$ 102**	$ 96	**$ 205**	$ 190
Straight-line rental revenue	**(10)**	(9)	**(19)**	(18)
Amortization of finance charges	**1**	(1)	**—**	(1)
Unit-based compensation expense	**1**	1	**2**	1
Sustaining property and leasing capital expenditures, normalized(i)	**(11)**	(10)	**(22)**	(20)
Adjusted Funds from Operations	**$ 83**	$ 77	**$ 166**	$ 152

(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.

July 26, 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".

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

(4) For segment presentation purposes, the results are for the periods ended June 30, 2016 and June 30, 2015, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 18, 2016 and June 20, 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.