

Management's Discussion and Analysis

1. Forward-Looking Statements	3
2. Key Financial Performance Indicators	5
3. Consolidated Results of Operations	6
4. Reportable Operating Segments Results of Operations	9
4.1 Retail Segment	9
4.2 Financial Services Segment	11
4.3 Choice Properties Segment	12
5. Liquidity and Capital Resources	12
5.1 Cash Flows	12
5.2 Liquidity and Capital Structure	13
5.3 Financial Condition	15
5.4 Credit Ratings	15
5.5 Other Sources of Funding	16
5.6 Share Capital	16
5.7 Off-Balance Sheet Arrangements	17
6. Financial Instruments	18
7. Results by Quarter	18
8. Internal Control over Financial Reporting	19
9. Enterprise Risks and Risk Management	19
10. Accounting Standards	19
11. Outlook	19
12. Non-GAAP Financial Measures	20
13. Additional Information	25

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 first 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 first 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 May 3, 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"), 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;

Management's Discussion and Analysis

- 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 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 March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)
Consolidated:		
Revenue growth	3.3%	37.8%
Adjusted EBITDA ⁽²⁾	\$ 829	\$ 789
Adjusted EBITDA margin ⁽²⁾	8.0%	7.9%
Net earnings attributable to shareholders of the Company	\$ 196	\$ 146
Net earnings available to common shareholders of the Company	193	146
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	338	301
Diluted net earnings per common share (\$)	\$ 0.47	\$ 0.35
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 0.82	\$ 0.72
Cash and cash equivalents, short term investments and security deposits	\$ 1,315	\$ 1,063
Cash flows from operating activities	813	517
Free cash flow ⁽²⁾	512	144
Retail debt to rolling year retail adjusted EBITDA ⁽²⁾	2.0x	2.3x
Rolling year adjusted return on equity ⁽²⁾	11.5%	13.8%
Rolling year adjusted return on capital ⁽²⁾	7.8%	9.9%
Retail Segment:		
Food retail same-store sales growth	2.0%	2.0%
Drug retail same-store sales growth	6.3%	3.1%
Adjusted gross profit ⁽²⁾	\$ 2,777	\$ 2,624
Adjusted gross profit % ⁽²⁾	27.3%	26.7%
Adjusted EBITDA ⁽²⁾	\$ 780	\$ 739
Adjusted EBITDA margin ⁽²⁾	7.7%	7.5%
Financial Services Segment⁽⁴⁾:		
Adjusted EBITDA ⁽²⁾	\$ 44	\$ 45
Earnings before income taxes	28	28
Annualized yield on average quarterly gross credit card receivables	14.0%	14.2%
Annualized credit loss rate on average quarterly gross credit card receivables	4.5%	4.8%
Choice Properties Segment⁽⁴⁾:		
Adjusted EBITDA ⁽²⁾	\$ 136	\$ 127
Adjusted funds from operations ⁽²⁾	83	75

3. Consolidated Results of Operations

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	\$ Change	% Change
Revenue	\$ 10,381	\$ 10,048	\$ 333	3.3 %
Adjusted EBITDA ⁽²⁾	829	789	40	5.1 %
Adjusted EBITDA margin ⁽²⁾	8.0%	7.9%		
Depreciation and amortization ⁽ⁱ⁾	\$ 244	\$ 246	\$ (2)	(0.8)%
Net interest expense and other financing charges	157	192	(35)	(18.2)%
Adjusted net interest expense and other financing charges ⁽²⁾	125	131	(6)	(4.6)%
Adjusted income taxes ⁽²⁾	128	111	17	15.3 %
Adjusted income tax rate ⁽²⁾	27.8%	26.9%		
Net earnings attributable to shareholders of the Company	\$ 196	\$ 146	\$ 50	34.2 %
Net earnings available to common shareholders of the Company⁽ⁱⁱ⁾	193	146	47	32.2 %
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	338	301	37	12.3 %
Diluted net earnings per common share (\$)	\$ 0.47	\$ 0.35	\$ 0.12	34.3 %
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	0.82	0.72	0.10	13.9 %
Diluted weighted average common shares outstanding (millions)	412.6	416.1		

(i) Depreciation and amortization for the calculation of adjusted EBITDA⁽²⁾ excludes \$124 million (2015 – \$124 million) of amortization of intangible assets acquired with Shoppers Drug Mart for the first quarter of 2016.

(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 first quarter of 2016 were \$338 million (\$0.82 per common share), an increase of \$37 million (\$0.10 per common share) compared to the first quarter of 2015 primarily due to the following:

- results in the Retail segment, which included achieving positive same-store sales and maintaining a stable gross margin, despite the impact of healthcare reform; and
- a positive contribution from incremental net synergies of \$28 million.

Net earnings available to common shareholders of the Company in the first quarter of 2016 were \$193 million (\$0.47 per common share), an increase of \$47 million (\$0.12 per common share) compared to the first quarter of 2015. In addition to the items described above, the increase in net earnings available to common shareholders of the Company included the year-over-year impact of the following significant items:

- the unfavourable impact of the change in fair value adjustment on fuel and foreign currency contracts of \$22 million (\$0.04 per common share);
- the favourable impact of a decrease in restructuring and other related costs of \$11 million (\$0.02 per common share);
- the unfavourable impact of retroactive tax legislation amendments of \$10 million (\$0.02 per common share); and
- the favourable impact of a decrease in net interest expense and other financing charges, primarily due to the fair value adjustment to the Trust Unit Liability of \$26 million (\$0.06 per common share).

Revenue

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	\$ Change	% Change
Retail	\$ 10,154	\$ 9,830	\$ 324	3.3%
Financial Services	207	199	8	4.0%
Choice Properties	192	182	10	5.5%
Consolidation and Eliminations	(172)	(163)	(9)	
Revenue	\$ 10,381	\$ 10,048	\$ 333	3.3%

Revenue was \$10,381 million in the first quarter of 2016, an increase of \$333 million compared to the first quarter of 2015, primarily driven by a \$324 million increase in the Retail segment due to positive same-store sales growth. Food retail same-store sales growth was 2.0% (2015 – 2.0%) and excluding gas bar was 2.6% (2015 – 4.0%⁽⁵⁾). The timing of Easter had a positive impact on Food retail same-store sales growth of 1.0%. Drug retail same-store sales growth was 6.3% (2015 – 3.1%). The timing of Easter had a positive impact on the front store same-store sales growth of approximately 1.9%.

Adjusted EBITDA⁽²⁾

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	\$ Change	% Change
Retail	\$ 780	\$ 739	\$ 41	5.5 %
Financial Services	44	45	(1)	(2.2)%
Choice Properties	136	127	9	7.1 %
Consolidation and Eliminations	(131)	(122)	(9)	
Adjusted EBITDA ⁽²⁾	\$ 829	\$ 789	\$ 40	5.1 %

Adjusted EBITDA⁽²⁾ was \$829 million in the first quarter of 2016, an increase of \$40 million compared to the first quarter of 2015, primarily driven by the Retail segment. The Retail segment adjusted EBITDA⁽²⁾ increase was primarily driven by higher sales, an increase in Retail segment gross profit percentage and an improvement in selling, general and administrative expenses (“SG&A”) as a percentage of sales, which included the positive impact of \$28 million (2015 – \$44 million) in incremental net synergies.

The Company’s annualized synergies were \$270 million.

Depreciation and Amortization Depreciation and amortization was \$368 million in the first quarter of 2016, a decrease of \$2 million compared to the first quarter of 2015. Excluding the impact of the amortization of intangible assets acquired from Shoppers Drug Mart, depreciation and amortization decreased by \$2 million, primarily attributable to lower depreciation on older supply chain assets.

Net Interest Expense and Other Financing Charges

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	\$ Change	% Change
Net interest expense and other financing charges	\$ 157	\$ 192	\$ (35)	(18.2)%
Deduct impact of the following:				
Fair value adjustment to the Trust Unit Liability	32	58	(26)	
Accelerated amortization of deferred financing costs	—	3	(3)	
Adjusted net interest expense and other financing charges ⁽²⁾	\$ 125	\$ 131	\$ (6)	(4.6)%

Management's Discussion and Analysis

Adjusted net interest expense and other financing charges⁽²⁾ was \$125 million in the first quarter of 2016, a decrease of \$6 million compared to the first quarter of 2015, primarily driven by the following factors:

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

Net interest expense and other financing charges were \$157 million in the first quarter of 2016, a decrease of \$35 million compared to the first quarter of 2015. In addition to the items described above, the decrease in net interest expense and other financing charges included the impact of the change in Trust Unit Liability of \$26 million.

Income Taxes

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	\$ Change	% Change
Income taxes	\$ 92	\$ 76	\$ 16	21.1%
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	39	35	4	
Statutory corporate income tax rate change	(3)	—	(3)	
Adjusted income taxes ⁽²⁾	\$ 128	\$ 111	\$ 17	15.3%
Effective tax rate	33.0%	34.2%		
Adjusted income tax rate ⁽²⁾	27.8%	26.9%		

The effective tax rate in the first quarter of 2016 was 33.0% compared to 34.2% in the first quarter of 2015. The decrease in the effective tax rate was primarily attributable to:

- the decrease in non-deductible fair value adjustment to the Trust Unit Liability; offset by
- 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 the deferred tax expense resulting from the increase in the New Brunswick statutory corporate income tax rate from 12% to 14% enacted in the first quarter of 2016.

The adjusted income tax rate⁽²⁾ in the first quarter was 27.8% compared to 26.9% in the first quarter of 2015, primarily attributable to the increase in the Alberta statutory corporate income tax rate as described above.

4. Reportable Operating Segments Results of Operations

4.1 Retail Segment

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	\$ Change	% Change
Sales	\$ 10,154	\$ 9,830	\$ 324	3.3 %
Gross profit	2,776	2,624	152	5.8 %
Adjusted gross profit ⁽²⁾	2,777	2,624	153	5.8 %
Adjusted gross profit % ⁽²⁾	27.3%	26.7%		
Adjusted EBITDA ⁽²⁾	\$ 780	\$ 739	\$ 41	5.5 %
Adjusted EBITDA margin ⁽²⁾	7.7%	7.5%		
Depreciation and amortization	\$ 362	\$ 364	\$ (2)	(0.5)%

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)		2015 (12 weeks)	
	Sales	Same-store sales	Sales	Same-store sales
Food retail	\$ 7,390	2.0%	\$ 7,234	2.0%
Drug retail	2,764	6.3%	2,596	3.1%
Pharmacy	1,313	4.2%	1,257	3.5%
Front store	1,451	8.2%	1,339	2.7%

Overall Retail Segment Performance Adjusted EBITDA⁽²⁾ improved by \$41 million in the first quarter of 2016 primarily driven by higher sales, including the positive impact of Easter, incremental net synergies, an increase in retail adjusted gross profit⁽²⁾ rate and improvements in SG&A excluding the impact of consolidated franchises.

Sales Retail sales were \$10,154 million in the first quarter of 2016 compared to \$9,830 million in the first quarter of 2015, an increase of \$324 million primarily driven by the following factors:

- Food retail same-store sales growth was 2.6% (2015 –4.0%⁽⁵⁾) for the quarter, after excluding gas bar (0.6%). Including gas bar, Food retail same-store sales growth was 2.0% (2015 – 2.0%). The timing of Easter had a positive impact of approximately 1.0%.
 - The Company's Food retail average quarterly internal food price index was moderately higher (2015 – higher) than the average quarterly national food price inflation of 4.3% (2015 – 4.6%), 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 moderate;
 - Sales growth in pharmacy and health and beauty was modest; and
 - Sales in gas bar declined significantly, primarily driven by a decline in gas prices.
- Drug retail same-store sales growth was 6.3% (2015 – 3.1%).
 - Same-store pharmacy sales growth was 4.2% (2015 – 3.5%);
 - the number of prescriptions dispensed increased by 4.1% (2015 – 4.8%). On a same-store basis, the number of prescriptions dispensed increased by 3.9% (2015 – 4.7%) and year-over-year, the average prescription value increased by 0.6% (2015 – decrease by 1.1%).
 - Same-store front store sales growth was 8.2% (2015 – 2.7%), with growth in all front store categories. The timing of Easter had a positive impact on front store same-store sales of approximately 1.9%.
- 37 food and drug stores were opened and 60 food and drug stores were closed in the 12 months ended March 26, 2016, resulting in a decrease in Retail net square footage of 0.2 million square feet, or 0.3%, primarily driven by the Company's store closure plan announced in 2015.

Management's Discussion and Analysis

Adjusted gross profit⁽²⁾, adjusted gross profit percentage⁽²⁾ and adjusted EBITDA⁽²⁾ in the first quarter of 2016 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 \$2,777 million in the first quarter of 2016 compared to \$2,624 million in the first quarter of 2015. Adjusted gross profit percentage⁽²⁾ of 27.3% increased by 60 basis points compared to the first quarter of 2015. Excluding the consolidation of franchises, the adjusted gross profit percentage⁽²⁾ was 26.9%, an increase of 20 basis points compared to the first quarter of 2015, driven by the achievement of operational synergies and an increase in underlying retail gross margin, partially offset by the impact of healthcare reform.

Adjusted EBITDA⁽²⁾ Adjusted EBITDA⁽²⁾ was \$780 million in the first quarter of 2016 compared to \$739 million in the first quarter of 2015, an increase of \$41 million, or 5.5%, driven by an increase in adjusted gross profit⁽²⁾ described above, partially offset by an increase in SG&A of \$112 million. SG&A as a percentage of sales was 19.6%, an increase of 40 basis points compared to the first quarter of 2015. Excluding the consolidation of franchises, SG&A as a percentage of sales, was 19.1%, an improvement of 10 basis points compared to the first quarter of 2015, with higher store and store support costs being more than offset by the achievement of operational synergies and favourable foreign exchange impacts.

Depreciation and Amortization Depreciation and amortization was \$362 million in the first quarter of 2016, a decrease of \$2 million compared to the first quarter of 2015. Excluding the impact of the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of \$124 million (2015 – \$124 million), the decrease in depreciation and amortization of \$2 million was primarily driven by lower depreciation on older supply chain assets.

Other Retail Business Matters

Impairment of Drug Retail Ancillary Assets Held for Sale In the first quarter of 2016, the Company signed agreements for the sale of certain assets of the Shoppers Drug Mart ancillary healthcare businesses. The Company recorded a charge of \$112 million in the fourth quarter of 2015 associated with the write-down of these assets and other related restructuring charges. No additional charges were recorded in the current quarter. The Company expects the annualized impact of the divestitures to be a decrease in sales of approximately \$245 million and an increase in adjusted EBITDA⁽²⁾ of \$14 million.

Consolidation of Franchises As at the end of the first quarter of 2016, the Company consolidated 115 franchise stores, which included 30 additional franchises and 85 stores consolidated in 2015. The Company recorded the incremental impacts of the 115 consolidated franchise stores as follows:

(millions of Canadian dollars)	2016 (12 weeks)
Sales	\$ 64
Gross profit	59
Adjusted gross profit ⁽²⁾	59
Adjusted EBITDA ⁽²⁾	(6)
Depreciation and amortization	4
Net loss attributable to Non-Controlling Interest	(9)

The Company operates more than 500 franchise stores, including 115 consolidated franchise stores, under the new and existing franchise agreements. The Company will continue to convert franchises to the new, simplified franchise agreement as the existing agreements expire. 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 EBITDA⁽²⁾ of approximately \$40 million and an increase in depreciation and amortization of approximately \$20 million.

Closure of Certain Unprofitable Retail Locations In 2015, the Company announced a plan to close approximately 52 unprofitable retail locations across a range of banners and formats. As at March 26, 2016, the Company substantially completed the planned closures.

4.2 Financial Services Segment⁽⁴⁾

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	\$ Change	% Change
Revenue	\$ 207	\$ 199	\$ 8	4.0 %
Adjusted EBITDA ⁽²⁾	44	45	(1)	(2.2)%
Earnings before income taxes	28	28	—	— %

(millions of Canadian dollars except where otherwise indicated)	As at March 26, 2016	As at March 28, 2015	\$ Change	% Change
Average quarterly net credit card receivables	\$ 2,692	\$ 2,554	\$ 138	5.4%
Credit card receivables	2,594	2,478	116	4.7%
Allowance for credit card receivables	53	51	2	3.9%
Annualized yield on average quarterly gross credit card receivables	14.0%	14.2%		
Annualized credit loss rate on average quarterly gross credit card receivables	4.5%	4.8%		

Revenue Revenue in the first quarter of 2016 was \$207 million, an increase of \$8 million, compared to the first quarter of 2015, primarily driven by:

- higher interest income attributable to growth in credit card receivables; and
- higher Mobile Shop sales; partially offset by
- lower interchange income from a regulatory interchange rate reduction.

Adjusted EBITDA⁽²⁾ Adjusted EBITDA⁽²⁾ in the first quarter of 2016 was \$44 million, a decrease of \$1 million, compared to the first quarter of 2015. The decrease in adjusted EBITDA⁽²⁾ was primarily driven 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; partially offset by
- revenue growth as described above.

Earnings before income taxes Earnings before income taxes in the first quarter of 2016 were \$28 million, flat compared to the first quarter of 2015 driven by the decrease in adjusted EBITDA⁽²⁾ as described above, offset by lower net interest expenses.

Credit Card Receivables As at March 26, 2016, credit card receivables were \$2,594 million, an increase of \$116 million compared to March 28, 2015. This increase was primarily driven by a growth in the active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. As at March 26, 2016, the allowance for credit card receivables was \$53 million, an increase of \$2 million compared to March 28, 2015 due to the growth in the credit card receivables portfolio.

4.3 Choice Properties Segment⁽⁴⁾

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	\$ Change	% Change
Revenue	\$ 192	\$ 182	\$ 10	5.5 %
Adjusted EBITDA ⁽²⁾	136	127	9	7.1 %
Net interest expense and other financing charges	268	339	(71)	(20.9)%
Adjusted funds from operations ⁽²⁾	83	75	8	10.7 %

Revenue Revenue was \$192 million in the first quarter of 2016, an increase of \$10 million compared to the first quarter of 2015 and included \$172 million (2015 – \$163 million) generated from tenants within the Retail segment. The increase in revenue was primarily driven by an increase in base rent and recoveries of property tax and operating cost from existing properties.

Adjusted EBITDA⁽²⁾ Adjusted EBITDA⁽²⁾ was \$136 million in the first quarter of 2016, an increase of \$9 million compared to the first quarter of 2015, primarily driven by:

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

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were \$268 million in the first quarter of 2016, a decrease of \$71 million compared to the first quarter of 2015, primarily driven by the change in fair value adjustment on Class B Limited Partnership units.

Adjusted Funds from Operations⁽²⁾ Adjusted funds from operations⁽²⁾ were \$83 million in the first quarter of 2016, an increase of \$8 million compared to the first quarter of 2015, primarily driven by higher contributions from property operations.

5. Liquidity and Capital Resources**5.1 Cash Flows****Major Cash Flow Components**

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	\$ Change	% Change
Cash and cash equivalents, beginning of period	\$ 1,018	\$ 999	\$ 19	1.9 %
Cash flows from (used in):				
Operating activities	813	517	296	57.3 %
Investing activities	(134)	(271)	137	50.6 %
Financing activities	(449)	(239)	(210)	(87.9)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	(5)	7	(12)	(171.4)%
Cash and cash equivalents, end of period	\$ 1,243	\$ 1,013	\$ 230	22.7 %

Cash Flows from Operating Activities Cash flows from operating activities in the first quarter of 2016 were \$813 million, an increase of \$296 million compared to the first quarter of 2015 primarily driven by the following:

- an improvement in the non-cash working capital driven by a reduction in inventory, a positive change in accounts receivable, partially offset by the change in accounts payable; and
- an increase in collections on credit card receivables, driven by the growth in the active customer base as discussed in the Financial Services segment.

Cash Flows used in Investing Activities Cash flows used in investing activities in the first quarter of 2016 were \$134 million, a decrease of \$137 million compared to the first quarter of 2015 primarily due to lower fixed asset additions in the first quarter of 2016.

Capital Investments and Store Activity

As at or for the periods ended March 26, 2016 and March 28, 2015	2016 (12 weeks)	2015 (12 weeks)	% Change
Capital investments (millions of Canadian dollars)	\$ 157	\$ 231	(32.0)%
Corporate square footage (in millions)	36.0	36.8	(2.2)%
Franchise square footage (in millions)	15.8	15.5	1.9 %
Associate-owned drug store square footage (in millions)	18.0	17.7	1.7 %
Total retail square footage (in millions)	69.8	70.0	(0.3)%
Number of corporate stores	585	613	(4.6)%
Number of franchise stores	522	524	(0.4)%
Number of Associate-owned drug stores	1,314	1,307	0.5 %
Total number of stores	2,421	2,444	(0.9)%
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	2%	2%	
Average store size (square feet)			
Corporate	61,500	60,000	2.5 %
Franchise	30,300	29,600	2.4 %
Associate-owned drug store	13,700	13,500	1.5 %

Cash Flows used in Financing Activities Cash flows used in financing activities were \$449 million in the first quarter of 2016, an increase of \$210 million compared to the first quarter of 2015. The increase was primarily driven by the repurchase of common shares for cancellation, higher repayments of short term debt, partially offset by lower net repayments of long term debt.

In 2016, significant long term debt transactions included the net issuance of \$50 million senior unsecured debentures by Choice Properties.

In 2015, significant long term debt transactions included:

- the repayment of \$207 million on the unsecured term loan facility related to the acquisition of Shoppers Drug Mart;
- the repayment of \$122 million of Choice Properties' senior unsecured committed credit facility; and
- the issuance of \$250 million aggregate principal amount of senior unsecured debentures by Choice Properties.

Free Cash Flow⁽²⁾

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	\$ Change	% Change
Free cash flow ⁽²⁾	\$ 512	\$ 144	\$ 368	255.6%

Free cash flow⁽²⁾ was \$512 million in the first quarter of 2016, an increase of \$368 million compared to the first quarter of 2015, primarily driven by an improvement in cash from operating activities and lower fixed asset additions in the first quarter of 2016.

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.

Management's Discussion and Analysis

The Company is focused on managing 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:

(millions of Canadian dollars)	As at March 26, 2016				As at March 28, 2015				As at January 2, 2016			
	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	\$ 291	\$ —	\$ —	\$ 291	\$ 299	\$ —	\$ —	\$ 299	\$ 143	\$ —	\$ —	\$ 143
Short term debt	—	350	—	350	—	505	—	505	—	550	—	550
Long term debt due within one year	583	100	1	684	53	392	—	445	584	112	302	998
Long term debt	5,985	1,348	3,062	10,395	7,127	993	2,802	10,922	5,968	1,347	2,698	10,013
Capital securities	—	—	—	—	225	—	—	225	—	—	—	—
Certain other liabilities	32	—	—	32	28	—	—	28	30	—	—	30
Total debt	\$6,891	\$ 1,798	\$ 3,063	\$11,752	\$7,732	\$ 1,890	\$ 2,802	\$12,424	\$6,725	\$ 2,009	\$ 3,000	\$11,734

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 March 26, 2016	As at March 28, 2015	As at January 2, 2016
Retail debt to rolling year retail adjusted EBITDA ⁽²⁾	2.0x	2.3x	2.0x

The Retail segment debt to rolling year retail adjusted EBITDA⁽²⁾ ratio as at March 26, 2016 and January 2, 2016 decreased compared to March 28, 2015 primarily as a result of adjusted EBITDA⁽²⁾ growth and targeted debt reduction in 2015.

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 March 26, 2016 and throughout the quarter, the Company and Choice Properties were in compliance with their respective covenants.

President's Choice Bank's ("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 first quarter of 2016, PC Bank has met all applicable regulatory requirements.

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

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	March 26, 2016 (12 weeks)	March 28, 2015 (12 weeks)
			Principal Amount	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.

The following table summarizes the debentures and MTNs repaid in first quarters of 2016 and 2015:

			March 26, 2016 (12 weeks)	March 28, 2015 (12 weeks)
(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount	Principal Amount
Choice Properties senior unsecured debentures – Series 5	3.00%	March 7, 2016	\$ 300	\$ —
Total Debentures and Medium Term Notes repaid			\$ 300	\$ —

Committed Credit Facilities The components of the committed lines of credit as at March 26, 2016, March 28, 2015 and January 2, 2016 were as follows:

(millions of Canadian dollars)	As at March 26, 2016		As at March 28, 2015		As at January 2, 2016	
	Available	Drawn	Available	Drawn	Available	Drawn
Loblaw's Committed Credit Facility	\$ 1,000	\$ —	\$ 1,000	\$ —	\$ 1,000	\$ —
Choice Properties Committed Credit Facility	500	16	500	—	500	—
Total Committed Lines of Credit	\$ 1,500	\$ 16	\$ 1,500	\$ —	\$ 1,500	\$ —

5.3 Financial Condition

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

	As at March 26, 2016	As at March 28, 2015	As at January 2, 2016
Rolling year adjusted return on equity ⁽²⁾	11.5%	13.8%	11.1%
Rolling year adjusted return on capital ⁽²⁾⁽ⁱ⁾	7.8%	9.9%	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, short term investments and amounts held in escrow.

The rolling year adjusted return on equity⁽²⁾ and the rolling year adjusted return on capital⁽²⁾ as at March 26, 2016 decreased compared to March 28, 2015, primarily due to the increase in capital as a result of the acquisition of Shoppers Drug Mart. The rolling year adjusted return on equity⁽²⁾ and the rolling year adjusted return on capital⁽²⁾ as at March 26, 2016 increased compared to January 2, 2016 due to higher net earnings and debt reduction over the last twelve months.

5.4 Credit Ratings

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:

Credit Ratings (Canadian Standards)	Dominion Bond Rating Service		Standard & Poor's	
	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:

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

5.5 Other Sources of Funding

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

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

(millions of Canadian dollars)	As at March 26, 2016	As at March 28, 2015	As at January 2, 2016
Securitized to independent securitization trusts:			
Securitized to <i>Eagle Credit Card Trust</i> [®]	\$ 650	\$ 750	\$ 650
Securitized to Other Independent Securitization Trusts	350	505	550
Total securitized to independent securitization trusts	\$ 1,000	\$ 1,255	\$ 1,200

The associated liability of *Eagle* is recorded in long term debt. The associated liabilities of credit card receivables securitized to the Other Independent Securitization Trusts are recorded in short term debt. In the first quarter of 2016, PC Bank recorded a \$200 million reduction (2015 – \$100 million reduction) of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts.

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at March 26, 2016 and throughout the quarter.

5.6 Share Capital

Common Shares (authorized – unlimited) Common shares issued are fully paid and have no par value. The activity in the common shares issued and outstanding during the periods was as follows:

(millions of Canadian dollars except where otherwise indicated)	March 26, 2016 (12 weeks)		March 28, 2015 (12 weeks)	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	409,985,226	\$ 7,861	412,480,891	\$ 7,860
Issued for settlement of stock options	731,214	32	404,198	17
Purchased and cancelled	(3,392,000)	(65)	(280,100)	(5)
Issued and outstanding, end of period	407,324,440	\$ 7,828	412,604,989	\$ 7,872
Shares held in trust, beginning of period	(643,452)	\$ (10)	(555,046)	\$ (3)
Purchased for future settlement of RSUs and PSUs	(1,250,000)	(24)	(376,403)	(7)
Released for settlement of RSUs and PSUs	706,134	12	297,767	1
Shares held in trust, end of period	(1,187,318)	\$ (22)	(633,682)	\$ (9)
Issued and outstanding, net of shares held in trust, end of period	406,137,122	\$ 7,806	411,971,307	\$ 7,863
Weighted average outstanding, net of shares held in trust	409,012,769		411,965,622	

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

(millions of Canadian dollars except where otherwise indicated)	March 26, 2016 (12 weeks)	March 28, 2015 (12 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	3,392,000	280,100
Cash consideration paid	\$ 231	\$ 17
Premium charged to Retained Earnings	166	12
Reduction in Common Share Capital	65	5
Common shares repurchased under the NCIB and held in trust (number of shares)	1,250,000	376,403
Cash consideration paid	\$ 90	\$ 24
Premium charged to Retained Earnings	66	17
Reduction in Common Share Capital	24	7

As part of the Company's focus to return capital to shareholders, the Company completed the repurchase and cancellation of 3,392,000 common shares through private agreements, for total consideration of \$231 million or a weighted average price of \$68.16 per share.

Subsequent to the end of the first 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 Subsequent to the end of the first quarter of 2016, the Board of Directors declared a quarterly dividend of \$0.26 per common share, an increase of 4.0%, payable on July 1, 2016 to shareholders of record on June 15, 2016 and a dividend on the Second Preferred Shares, Series B of \$0.33 per share payable on June 30, 2016 to shareholders of record on June 15, 2016.

The following table summarizes the Company's cash dividends declared for 2016 and 2015:

(millions of Canadian dollars except where otherwise indicated)	March 26, 2016⁽ⁱ⁾ (12 weeks)	March 28, 2015 (12 weeks)
Dividends declared:		
Common Share – \$0.25 per share (2015 – \$0.245)	\$ 102	\$ 101
Second Preferred Share, Series A – nil per share (2015 – \$0.37) ⁽ⁱⁱ⁾	—	3
Second Preferred Share, Series B – \$0.33 per share (2015 – nil)	3	—
Total dividends declared	\$ 105	\$ 104

(i) The first quarter dividends for 2016 of \$0.25 per share declared on common shares have a payment date of April 1, 2016. The first quarter dividends for 2016 of \$0.33 per share declared on Second Preferred Shares, Series B have a payment date of March 31, 2016.

(ii) For financial statement purposes, Second Preferred Shares, Series A dividends of \$3 million were included as a component of net interest expense and other financing charges.

5.7 Off-Balance Sheet Arrangements

Letters of Credit Standby and documentary letters of credit are used in connection with certain obligations, mainly related to real estate transactions, benefit programs, purchase orders and other performance guarantees, securitization of PC Bank's credit card receivables and third party financing made available to the Company's franchisees. The gross potential liability related to the Company's letters of credit is approximately \$809 million as at March 26, 2016 (March 28, 2015 – \$565 million; January 2, 2016 – \$860 million).

Guarantees In addition to the letters of credit mentioned above, the Company has entered into various guarantee arrangements including obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of business.

Cash Collateralization As at March 26, 2016, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of \$147 million (March 28, 2015 – \$144 million; January 2, 2016 – \$149 million), of which \$2 million (March 28, 2015 – \$6 million; January 2, 2016 – \$2 million) was deposited with major financial institutions and classified as security deposits.

6. Financial Instruments

Bond Forwards During the first quarter of 2016, PC Bank entered into bond forward agreements with a notional value of \$95 million to hedge its exposure to interest rate fluctuations. These agreements qualified for hedge accounting as cash flow hedges. Accordingly, during the first quarter of 2016, PC Bank recorded a nominal unrealized fair value gain (2015 – nil) net of tax in other comprehensive income related to these agreements.

In addition, during the first quarter of 2016, Choice Properties entered into and settled bond forward agreements with a notional value of \$300 million, resulting in a realized fair value gain of \$3 million recorded in net interest expense and other financing charges.

Interest Rate Swaps During the first quarter of 2016, PC Bank entered into interest rate swap agreements with a notional value of \$200 million to hedge its exposure to interest rate fluctuations. These agreements qualified for hedge accounting as cash flow hedges. Accordingly, during the first quarter of 2016, PC Bank recorded a nominal unrealized fair value gain (2015 – nil) net of tax in other comprehensive income related to these agreements.

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:

	First Quarter		Fourth Quarter		Third Quarter		Second Quarter	
	2016 (12 weeks)	2015 (12 weeks)	2015 (12 weeks)	2014 (13 weeks)	2015 (16 weeks)	2014 (16 weeks)	2015 (12 weeks)	2014 (12 weeks)
(millions of Canadian dollars except where otherwise indicated)								
Revenue	\$ 10,381	\$ 10,048	\$ 10,865	\$ 11,413	\$ 13,946	\$ 13,599	\$ 10,535	\$ 10,307
Net earnings (loss) available to common shareholders of the Company	193	146	128	247	166	142	185	(456)
Adjusted net earnings available to common shareholders of the Company	338	301	363	396	408	371	350	297
Net earnings (loss) per common share:								
Basic (\$)	\$ 0.47	\$ 0.35	\$ 0.31	\$ 0.60	\$ 0.40	\$ 0.34	\$ 0.45	\$ (1.13)
Diluted (\$)	0.47	0.35	0.31	0.59	0.40	0.34	0.44	(1.13)
Adjusted net earnings per common share:								
Basic (\$)	\$ 0.83	\$ 0.73	\$ 0.88	\$ 0.96	\$ 0.99	\$ 0.90	\$ 0.85	\$ 0.74
Diluted (\$)	0.82	0.72	0.87	0.95	0.98	0.89	0.84	0.74
Average national food price inflation (as measured by CPI)	4.3%	4.6%	4.1%	3.5%	3.8%	2.8%	3.9%	2.5%
Food retail same-store sales growth	2.0%	2.0%	2.4%	2.4%	1.3%	2.6%	2.1%	1.8%
Drug retail same-store sales growth	6.3%	3.1%	5.0%	3.8%	4.9%	2.5%	3.8%	2.5%

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

Over the past eight quarters, net retail square footage increased by 17.9 million square feet, including 18.0 million square feet contributed by Shoppers Drug Mart at acquisition, to 69.8 million square feet.

Net Earnings (Loss) Available to Common Shareholders of the Company and Diluted Net Earnings (Loss) 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;
- the acquisition of Shoppers Drug Mart, including acquisition-related accounting adjustments; and
- acquisition-related net synergies.

Net earnings (loss) available to common shareholders of the Company and diluted net earnings (loss) 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, as well as 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; and
- the transition of certain stores to more cost effective and efficient labour agreements.

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 first 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 IAS 1, “Presentation of Financial Statements”, in the first quarter of 2016, with no significant impact on the Company’s unaudited interim period condensed consolidated financial statements.

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 March 26, 2016 and March 28, 2015 (millions of Canadian dollars)	2016 (12 weeks)	2015 (12 weeks)
Retail segment gross profit	\$ 2,776	\$ 2,624
Add impact of the following:		
Restructuring and other related costs	1	—
Retail segment adjusted gross profit	\$ 2,777	\$ 2,624

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin The following table reconciles 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 March 26, 2016 and March 28, 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.

(millions of Canadian dollars)	2016 (12 weeks)					2015 (12 weeks)				
	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					\$ 196					\$ 146
Add (deduct) impact of the following:										
Non-Controlling Interests					(9)					—
Net interest expense and other financing charges					157					192
Income taxes					92					76
Operating income	\$ 393	\$ 41	\$ 136	\$ (134)	\$ 436	\$ 370	\$ 42	\$ 127	\$ (125)	\$ 414
Depreciation and amortization	362	3	—	3	368	364	3	—	3	370
EBITDA	\$ 755	\$ 44	\$ 136	\$ (131)	\$ 804	\$ 734	\$ 45	\$ 127	\$ (122)	\$ 784
Operating income	\$ 393	\$ 41	\$ 136	\$ (134)	\$ 436	\$ 370	\$ 42	\$ 127	\$ (125)	\$ 414
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	124	—	—	—	124	124	—	—	—	124
Fair value adjustment on fuel and foreign currency contracts	10	—	—	—	10	(12)	—	—	—	(12)
Prior year tax assessment	10	—	—	—	10	—	—	—	—	—
Fixed asset and other related impairments, net of recoveries	2	—	—	—	2	3	—	—	—	3
Pension annuities and buy-outs	2	—	—	—	2	—	—	—	—	—
Restructuring and other related costs	1	—	—	—	1	12	—	—	—	12
Shoppers Drug Mart acquisition-related cost, net of impact from divestitures	—	—	—	—	—	2	—	—	—	2
Adjusted operating income	\$ 542	\$ 41	\$ 136	\$ (134)	\$ 585	\$ 499	\$ 42	\$ 127	\$ (125)	\$ 543
Depreciation and amortization	362	3	—	3	368	364	3	—	3	370
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(124)	—	—	—	(124)	(124)	—	—	—	(124)
Adjusted EBITDA	\$ 780	\$ 44	\$ 136	\$ (131)	\$ 829	\$ 739	\$ 45	\$ 127	\$ (122)	\$ 789

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 the SG&A. Annual amortization associated with the acquired intangibles will be approximately \$550 million over the next eight years, 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 a charge of \$10 million to the SG&A in the Retail segment in the first quarter of 2016.

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.

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.

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 March 26, 2016 and March 28, 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.

For the periods ended March 26, 2016 and March 28, 2015 (millions of Canadian dollars)	2016 (12 weeks)	2015 (12 weeks)
Net interest expense and other financing charges	\$ 157	\$ 192
Deduct impact of the following:		
Fair value adjustment to the Trust Unit Liability	32	58
Accelerated amortization of deferred financing costs	—	3
Adjusted net interest expense and other financing charges	\$ 125	\$ 131

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 March 26, 2016 and March 28, 2015 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)
Adjusted operating income ⁽ⁱ⁾	\$ 585	\$ 543
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	125	131
Adjusted earnings before taxes	\$ 460	\$ 412
Income taxes	\$ 92	\$ 76
Add (deduct) impact of the following:		
Tax impact of items included in adjusted earnings before taxes ⁽ⁱⁱ⁾	39	35
Statutory corporate income tax rate change	(3)	—
Adjusted income taxes	\$ 128	\$ 111
Effective tax rate	33.0%	34.2%
Adjusted income tax rate	27.8%	26.9%

(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 March 26, 2016 and March 28, 2015:

(\$ except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)
Diluted net earnings per common share	\$ 0.47	\$ 0.35
Add (deduct) impact of the following:		
Amortization of intangible assets acquired with Shoppers Drug Mart	0.22	0.22
Fair value adjustment to the Trust Unit Liability ⁽ⁱ⁾	0.08	0.14
Fair value adjustment on fuel and foreign currency contracts	0.02	(0.02)
Prior year tax assessment	0.02	—
Statutory corporate income tax rate change	0.01	—
Restructuring and other related costs	—	0.02
Accelerated amortization of deferred financing costs	—	0.01
Adjusted diluted net earnings per common share	\$ 0.82	\$ 0.72
Diluted weighted average common shares outstanding (millions)	412.6	416.1
Adjusted net earnings attributable to shareholders of the Company (millions of Canadian dollars)	\$ 341	\$ 301
Less: Prescribed dividends on preferred shares in share capital (millions of Canadian dollars)	(3)	—
Adjusted net earnings available to common shareholders of the Company (millions of Canadian dollars)	\$ 338	\$ 301

(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 March 26, 2016 and March 28, 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)
Cash flows from operating activities	\$ 813	\$ 517
Less:		
Capital investments	157	231
Interest paid	144	142
Free cash flow	\$ 512	\$ 144

Choice Properties' Adjusted Funds from Operations The following table reconciles Choice Properties' adjusted funds from operations to GAAP measures for the periods ended March 26, 2016 and March 28, 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)
Net Loss	\$ (132)	\$ (211)
Fair value adjustments on Class B Limited Partnership units	181	254
Fair value adjustments on investment properties	14	1
Fair value adjustments on unit-based compensation	1	—
Fair value adjustments of investment property held in equity accounted joint venture	(14)	—
Distributions on Class B Limited Partnership units	53	50
Funds from Operations	\$ 103	\$ 94
Straight-line rental revenue	(9)	(9)
Amortization of finance charges	(1)	—
Unit-based compensation expense	1	—
Sustaining property and leasing capital expenditures, normalized ⁽ⁱ⁾	(11)	(10)
Adjusted Funds from Operations	\$ 83	\$ 75

(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.

May 3, 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 March 31, 2016 and March 31, 2015, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to March 26, 2016 and March 28, 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.
-