Q2

Second Quarter Report to Shareholders
24 weeks ending June 17, 2017

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2017 Second Quarter Report to Shareholders

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 2017 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 December 31, 2016 and the related annual MD&A included in the Company's 2016 Annual Report – Financial Review ("2016 Annual Report").

The Company's second quarter 2017 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 2016 Annual Report.

The information in this MD&A is current to July 25, 2017, 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, strategic initiatives, regulatory changes including minimum wage increases and further healthcare reform, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementations. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in Section 5 "Liquidity and Capital Resources", Section 11 "Outlook" and Section 12 "Non-GAAP Financial Measures" 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 2017 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 2016 Annual Report, and the Company's 2016 Annual Information Form ("AIF") (for the year ended December 31, 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;
- failure to effectively manage the Company's loyalty programs;
- 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 cyber security or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- public health events including those related to food and drug safety;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;

- failure to merchandise effectively, to execute the Company's e-commerce initiative or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- failure to realize the anticipated benefits, including revenue growth, anticipated cost savings or operating efficiencies, associated with the Company's investment in major initiatives that support its strategic priorities;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, interest rates, currency exchange rates or derivative and commodity prices;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- adverse outcomes of legal and regulatory proceedings and related matters;
- reliance on the performance and retention of third party service providers, including those associated with the Company’s supply chain and apparel business, including issues with vendors in both advanced and developing markets; and
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink.

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 2016 AIF (for the year ended December 31, 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[1]

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 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)		2017 (12 weeks)		2016[5] (12 weeks)
Consolidated:				
Revenue growth		**3.2%**		1.9%
Operating Income	**$**	**626**	$	517
Adjusted EBITDA[2]		**985**		924
Adjusted EBITDA margin[2]		**8.9%**		8.6%
Net earnings	**$**	**364**	$	156
Net earnings attributable to shareholders of the Company		**361**		161
Net earnings available to common shareholders of the Company		**358**		158
Adjusted net earnings available to common shareholders of the Company[2]		**445**		412
Diluted net earnings per common share ($)	**$**	**0.89**	$	0.39
Adjusted diluted net earnings per common share[2] ($)	**$**	**1.11**	$	1.01
Cash and cash equivalents and short term investments	**$**	**1,673**	$	1,234
Cash flows from operating activities		**872**		733
Free cash flow[2]		**547**		432
Financial Measures:				
Retail debt to rolling year retail adjusted EBITDA[2]		**1.7x**		1.8x
Rolling year adjusted return on equity[2]		**13.6%**		12.0%
Rolling year adjusted return on capital[2]		**9.3%**		8.1%
Retail Segment:				
Food retail same-store sales growth		**1.2%**		0.4%
Drug retail same-store sales growth		**3.7%**		4.0%
Operating income	**$**	**578**	$	475
Adjusted gross profit[2]		**3,007**		2,826
Adjusted gross profit %[2]		**27.8%**		26.9%
Adjusted EBITDA[2]	**$**	**930**	$	875
Adjusted EBITDA margin[2]		**8.6%**		8.3%
Financial Services Segment[4]:				
Earnings before income taxes	**$**	**26**	$	29
Annualized yield on average quarterly gross credit card receivables		**13.3%**		13.6%
Annualized credit loss rate on average quarterly gross credit card receivables		**4.0%**		4.5%
Choice Properties Segment[4]:				
Net income (loss)	**$**	**42**	$	(560)
Funds from operations[2]		**108**		102

3. Consolidated Results of Operations

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	**2017 (12 weeks)**	2016 (12 weeks)	$ Change	% Change	**2017 (24 weeks)**	2016 (24 weeks)	$ Change	% Change
Revenue	**$ 11,079**	$ 10,731	$ 348	3.2 %	**$ 21,480**	$ 21,112	$ 368	1.7 %
Operating Income	**626**	517	109	21.1 %	**1,118**	953	165	17.3 %
Adjusted EBITDA(2)	**985**	924	61	6.6 %	**1,850**	1,753	97	5.5 %
Adjusted EBITDA margin(2)	**8.9%**	8.6%			**8.6%**	8.3%		
Depreciation and amortization	**$ 360**	$ 346	$ 14	4.0 %	**$ 720**	$ 714	$ 6	0.8 %
Net interest expense and other financing charges	**127**	236	(109)	(46.2)%	**288**	393	(105)	(26.7)%
Adjusted net interest expense and other financing charges(2)	**128**	128	—	— %	**253**	253	—	— %
Adjusted income taxes(2)	**167**	163	4	2.5 %	**302**	291	11	3.8 %
Adjusted income tax rate(2)	**27.0%**	28.4%			**27.0%**	28.2%		
Net earnings attributable to shareholders of the Company	**$ 361**	$ 161	$ 200	124.2 %	**$ 594**	$ 357	$ 237	66.4 %
Net earnings available to common shareholders of the Company(i)	**358**	158	200	126.6 %	**588**	351	237	67.5 %
Adjusted net earnings available to common shareholders of the Company(2)	**445**	412	33	8.0 %	**809**	750	59	7.9 %
Diluted net earnings per common share ($)	**$ 0.89**	$ 0.39	$ 0.50	128.2 %	**$ 1.47**	$ 0.85	$ 0.62	72.9 %
Adjusted diluted net earnings per common share(2) ($)	**1.11**	1.01	0.10	9.9 %	**2.02**	1.82	0.20	11.0 %
Diluted weighted average common shares outstanding (millions)	**400.3**	409.9			**401.3**	411.5		

(i) 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 Net earnings available to common shareholders of the Company in the second quarter of 2017 were $358 million ($0.89 per common share), an increase of $200 million ($0.50 per common share) compared to the second quarter of 2016. The increase in net earnings available to common shareholders of the Company was driven by improvements in underlying operating performance of $33 million and the favourable year-over-year net impact of adjusting items totaling $167 million, as described below:

- improvements in underlying operating performance of $33 million ($0.07 per common share), were primarily due to the following:
  - the Retail segment (excluding the impact of the consolidation of franchises), driven by higher sales and an increase in adjusted gross profit percentage(2), partially offset by higher selling, general and administrative expenses ("SG&A") and depreciation and amortization;
  - the Choice Properties segment, primarily resulting from expansion of the property portfolio through development of third-party properties and an increase in base rent from existing properties; and
  - the favourable impact of a decrease in the adjusted income tax rate(2) primarily attributable to a decrease in certain non-deductible items.
- the favourable year-over-year net impact of adjusting items totaling $167 million ($0.40 per common share) was primarily due to the following:
  - the change in fair value adjustment to the Trust Unit Liability of $109 million ($0.26 per common share);
  - prior year restructuring and other related charges of $40 million ($0.10 per common share);
  - prior year charges related to retail locations in Fort McMurray impacted by wildfires of $9 million ($0.02 per common share); and
  - the change in fair value adjustment on fuel and foreign currency contracts of $8 million ($0.02 per common share).
- diluted net earnings per common share were also impacted by the favourable impact of the repurchase of common shares ($0.03 per common share).

Adjusted net earnings available to common shareholders of the Company(2) in the second quarter of 2017 were $445 million ($1.11 per common share), an increase of $33 million ($0.10 per common share) compared to the second quarter of 2016, due to the improvements in underlying operating performance and the favourable impact of the repurchase of common shares, as described above.

Year-to-date net earnings available to common shareholders of the Company were $588 million ($1.47 per common share), an increase of $237 million ($0.62 per common share) compared to the same period in 2016. The increase in net earnings available to common shareholders of the Company was driven by improvements in underlying operating performance of $59 million and the favourable year-over-year net impact of adjusting items totaling $178 million, as described below:

- improvements in underlying operating performance of $59 million ($0.15 per common share), were primarily due to the following:
  - the Retail segment (excluding the impact of the consolidation of franchises), driven by higher sales and an increase in adjusted gross profit percentage(2), partially offset by higher SG&A;
  - the Choice Properties segment, primarily resulting from expansion of the property portfolio through development of third-party properties and an increase in base rent from existing properties; and
  - the favourable impact of a decrease in the adjusted income tax rate(2) primarily attributable to a decrease in certain non-deductible items.
- the favourable year-over-year net impact of adjusting items totaling $178 million ($0.42 per common share) was primarily due to the following:
  - the change in fair value adjustment to the Trust Unit Liability of $105 million ($0.25 per common share);
  - prior year restructuring and other related charges of $41 million ($0.10 per common share);
  - the change in fair value adjustment on fuel and foreign currency contracts of $11 million ($0.03 per common share);
  - prior year charges related to retail locations in Fort McMurray impacted by wildfires of $9 million ($0.02 per common share); and
  - a prior year land transfer tax assessment of $7 million ($0.02 per common share).
- diluted net earnings per common share were also impacted by the favourable impact of the repurchase of common shares ($0.05 per common share).

Year-to-date adjusted net earnings available to common shareholders of the Company(2) were $809 million ($2.02 per common share), an increase of $59 million ($0.20 per common share) compared to the same period in 2016, due to the improvements in underlying operating performance and the favourable impact of the repurchase of common shares, as described above.

Revenue

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	**2017 (12 weeks)**	2016 (12 weeks)	$ Change	% Change	**2017 (24 weeks)**	2016 (24 weeks)	$ Change	% Change
Retail	**$ 10,827**	$ 10,494	$ 333	3.2%	**$ 20,993**	$ 20,648	$ 345	1.7%
Financial Services	**225**	214	11	5.1%	**435**	421	14	3.3%
Choice Properties	**209**	198	11	5.6%	**412**	390	22	5.6%
Consolidation and Eliminations	**(182)**	(175)	(7)		**(360)**	(347)	(13)	
Revenue	**$ 11,079**	$ 10,731	$ 348	3.2%	**$ 21,480**	$ 21,112	$ 368	1.7%

Revenue was $11,079 million in the second quarter of 2017, an increase of $348 million, or 3.2%, compared to the second quarter of 2016, primarily driven by an increase in Retail segment sales of $333 million. Excluding the consolidation of franchises, Retail segment sales increased by $253 million, or 2.4%, primarily due to positive same-store sales growth, which included the favourable impact of the timing of Easter, and a net increase in Retail square footage.

Year-to-date revenue was $21,480 million in 2017, an increase of $368 million, or 1.7%, compared to the same period in 2016, primarily driven by an increase in Retail segment sales of $345 million. Excluding the consolidation of franchises, Retail segment sales increased by $188 million, or 0.9%, primarily due to positive same-store sales growth, which included the unfavourable impact of the timing of New Year's Day, and a net increase in Retail square footage.

Operating Income Operating income was $626 million in the second quarter of 2017, an increase of $109 million compared to the second quarter of 2016. The increase in operating income was driven by improvements in underlying operating performance of $45 million and the favourable year-over-year net impact of adjusting items totaling $64 million, as described below:

- improvements in underlying operating performance of $45 million were primarily due to the Retail segment and Choice Properties segment net of consolidation and eliminations. The improvements in underlying operating performance also included the positive contribution from the consolidation of franchises; and
- the favourable year-over-year net impact of adjusting items totaling $64 million was primarily due to the following:
  - prior year restructuring and other related charges of $43 million;
  - prior year charges related to retail locations in Fort McMurray impacted by wildfires of $12 million; and
  - the change in fair value adjustment on fuel and foreign currency contracts of $11 million.

Year-to-date operating income was $1,118 million in 2017, an increase of $165 million compared to the same period in 2016. The increase in operating income was driven by improvements in underlying operating performance of $86 million and the favourable year-over-year net impact of adjusting items totaling $79 million, as described below:

- improvements in underlying operating performance of $86 million were primarily due to the Retail segment and Choice Properties segment net of consolidation and eliminations. The improvements in underlying operating performance also included the positive contribution from the consolidation of franchises; and
- the favourable year-over-year net impact of adjusting items totaling $79 million was primarily due to the following:
  - prior year restructuring and other related charges of $44 million;
  - the change in fair value adjustment on fuel and foreign currency contracts of $15 million;
  - prior year charges related to retail locations in Fort McMurray impacted by wildfires of $12 million; and
  - a prior year land transfer tax assessment of $10 million.

Adjusted EBITDA(2)

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	**2017 (12 weeks)**	2016 (12 weeks)	$ Change	% Change	**2017 (24 weeks)**	2016 (24 weeks)	$ Change	% Change
Retail	**$ 930**	$ 875	$ 55	6.3 %	**$ 1,741**	$ 1,655	$ 86	5.2 %
Financial Services	**41**	44	(3)	(6.8)%	**83**	88	(5)	(5.7)%
Choice Properties	**140**	111	29	26.1 %	**377**	247	130	52.6 %
Consolidation and Eliminations	**(126)**	(106)	(20)		**(351)**	(237)	(114)	
Adjusted EBITDA(2)	**$ 985**	$ 924	$ 61	6.6 %	**$ 1,850**	$ 1,753	$ 97	5.5 %

Adjusted EBITDA(2) was $985 million in the second quarter of 2017, an increase of $61 million compared to the second quarter of 2016. Year-to-date adjusted EBITDA(2) was $1,850 million in 2017, an increase of $97 million compared to the same period in 2016. The increase in adjusted EBITDA(2) in the second quarter of 2017 and year-to-date was primarily due to improvements in the Retail segment and Choice Properties segment net of consolidation and eliminations. The improvements in Adjusted EBITDA(2) also included the positive contribution from the consolidation of franchises.

Depreciation and Amortization Depreciation and amortization was $360 million in the second quarter of 2017, an increase of $14 million compared to the second quarter of 2016, primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") of $121 million (2016 – $123 million).

Year-to-date depreciation and amortization was $720 million in 2017, an increase of $6 million compared to the same period in 2016, primarily driven by the consolidation of franchises and an increase in IT assets, partially offset by the change in estimated useful life of certain equipment and fixtures in the second quarter of 2016. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $242 million (2016 – $247 million).

Net Interest Expense and Other Financing Charges

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars)	**2017** **(12 weeks)**	2016 (12 weeks)	**2017** **(24 weeks)**	2016 (24 weeks)
Net interest expense and other financing charges	**$ 127**	$ 236	**$ 288**	$ 393
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**1**	(108)	**(35)**	(140)
Adjusted net interest expense and other financing charges(2)	**$ 128**	$ 128	**$ 253**	$ 253

Net interest expense and other financing charges were $127 million in the second quarter of 2017, a decrease of $109 million compared to the second quarter of 2016. The decrease was primarily due to the year-over-year impact of the change in the fair value adjustment to the Trust Unit Liability of $109 million. Adjusted net interest expense and other financing charges(2) were flat compared to the second quarter of 2016 and included:

- lower interest expense in the Retail segment due to the repayment of Medium Term Notes ("MTNs") in the second quarter of 2016; offset by
- an increase in interest expense in the Choice Properties segment due to higher drawings on its credit facilities and higher distributions to Trust unitholders other than the Company.

Year-to-date net interest expense and other financing charges were $288 million, a decrease of $105 million compared to the same period in 2016. The decrease was primarily due to the year-over-year impact of the change in the fair value adjustment to the Trust Unit Liability of $105 million. Adjusted net interest expense and other financing charges(2) were flat compared to the same period in 2016 and included:

- lower interest expense in the Retail segment due to the repayment of MTNs in the second quarter of 2016; offset by
- an increase in interest expense in the Choice Properties segment due to higher drawings on its credit facilities, a prior year gain on settlement of bond forwards and higher distributions to Trust unitholders other than the Company.

Income Taxes

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	**2017** **(12 weeks)**	2016 (12 weeks)	**2017** **(24 weeks)**	2016 (24 weeks)
Income taxes	**$ 135**	$ 125	**$ 234**	$ 217
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	**32**	38	**68**	77
Statutory corporate income tax rate change	**—**	—	**—**	(3)
Adjusted income taxes(2)	**$ 167**	$ 163	**$ 302**	$ 291
Effective tax rate	**27.1%**	44.5%	**28.2%**	38.8%
Adjusted income tax rate(2)	**27.0%**	28.4%	**27.0%**	28.2%

The effective tax rate in the second quarter of 2017 was 27.1% compared to 44.5% in the second quarter of 2016. The decrease in the effective tax rate was primarily attributable to a decrease in the non-deductible fair value adjustment to the Trust Unit Liability and a decrease in certain other non-deductible items.

The adjusted income tax rate(2) in the second quarter of 2017 was 27.0% compared to 28.4% in the second quarter of 2016. The decrease in the adjusted income tax rate(2) was primarily attributable to a decrease in certain non-deductible items.

Year-to-date effective tax rate was 28.2% compared to 38.8% for the same period in 2016. The decrease in the effective tax rate was primarily attributable to a decrease in the non-deductible fair value adjustment to the Trust Unit Liability, a decrease in certain other non-deductible items and a decrease in deferred tax expense resulting from the impact of a prior year charge related to the re-measurement of deferred tax liabilities as a result of the increase in the New Brunswick statutory corporate income tax rate from 12% to 14% enacted in the first quarter of 2016.

Year-to-date adjusted income tax rate(2) was 27.0% compared to 28.2% for the same period in 2016. The decrease in the adjusted income tax rate(2) was primarily attributable to a decrease in certain non-deductible items.

4. Reportable Operating Segments Results of Operations

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and includes in-store pharmacies and other health and beauty products, gas bars and apparel and other general merchandise. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base;
- The Financial Services segment provides credit card services, loyalty programs, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services; and
- The Choice Properties segment owns, manages and develops retail and commercial properties across Canada. The Choice Properties segment information presented below reflects the accounting policies of Choice Properties, which may differ from those of the consolidated Company. Differences in policies are eliminated in Consolidation and Eliminations.

4.1 Retail Segment

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	**2017 (12 weeks)**	2016 (12 weeks)	$ Change	% Change	**2017 (24 weeks)**	2016 (24 weeks)	$ Change	% Change
Sales	**$ 10,827**	$ 10,494	$ 333	3.2%	**$ 20,993**	$ 20,648	$ 345	1.7%
Operating Income	**578**	475	103	21.7%	**1,024**	868	156	18.0%
Adjusted gross profit(2)	**3,007**	2,826	181	6.4%	**5,851**	5,603	248	4.4%
Adjusted gross profit %(2)	**27.8%**	26.9%			**27.9%**	27.1%		
Adjusted EBITDA(2)	**$ 930**	$ 875	$ 55	6.3%	**$ 1,741**	$ 1,655	$ 86	5.2%
Adjusted EBITDA margin(2)	**8.6%**	8.3%			**8.3%**	8.0%		
Depreciation and amortization	**$ 353**	$ 339	$ 14	4.1%	**$ 705**	$ 701	$ 4	0.6%

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	**2017 (12 weeks)**		2016 (12 weeks)		**2017 (24 weeks)**		2016 (24 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales	**Sales**	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 7,944**	**1.2%**	$ 7,718	0.4%	**$ 15,337**	**0.0%**	$ 15,108	1.2%
Drug retail	**2,883**	**3.7%**	2,776	4.0%	**5,656**	**2.4%**	5,540	5.1%
Pharmacy	**1,377**	**2.9%**	1,324	3.6%	**2,720**	**2.1%**	2,637	3.9%
Front Store	**1,506**	**4.5%**	1,452	4.3%	**2,936**	**2.5%**	2,903	6.3%

Sales, operating income, adjusted gross profit(2), adjusted gross profit percentage(2), adjusted EBITDA(2) and adjusted EBITDA margin(2) included the impacts of the consolidation of franchises, as set out in "Other Retail Business Matters" for the periods ended as indicated.

Sales Retail segment sales in the second quarter of 2017 were $10,827 million, an increase of $333 million, or 3.2%, compared to the second quarter of 2016. Excluding the consolidation of franchises, Retail segment sales increased by $253 million, or 2.4%, primarily driven by the following factors:

- Food retail same-store sales growth was 1.0% (2016 – 0.7%) for the quarter, after excluding the gas bar increase of 0.2% (2016 – decline of 0.3%). Excluding the favourable impact of the timing of Easter, Food retail same-store sales were relatively flat. Including gas bar, Food retail same-store sales growth was 1.2% (2016 – 0.4%).
  - Sales growth in food was modest;
  - Sales in pharmacy were flat;
  - Sales growth in gas bar was strong; and
  - The Company's Food retail average quarterly internal food price index declined and was marginally higher than (2016 – slightly lower than) the average quarterly national food price deflation of 1.4% (2016 – inflation of 1.8%), as measured by The Consumer Price Index for Food Purchased from Stores ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores.
- Drug retail same-store sales growth was 3.7% (2016 – 4.0%). Excluding the favourable impact of the timing of Easter, Drug retail same-store sales growth was approximately 2.9%.
  - Pharmacy same-store sales growth was 2.9% (2016 – 3.6%). The number of prescriptions dispensed increased by 4.4% (2016 – 3.6%). On a same-store basis, the number of prescriptions dispensed increased by 3.7% (2016 – 3.3%) and year-over-year, the average prescription value decreased by 1.1% (2016 – increased by 0.4%). Pharmacy sales were negatively impacted by one less selling day due to the Easter statutory holiday. Excluding the unfavourable impact of the timing of Easter, pharmacy same-store sales growth was approximately 3.5%.
  - Front store same-store sales growth was 4.5% (2016 – 4.3%). Excluding the favourable impact of the timing of Easter, front store same-store sales growth was approximately 2.3%.
- 32 food and drug stores were opened and 18 food and drug stores were closed in the last 12 months, resulting in a net increase in Retail square footage of 0.5 million square feet, or 0.7%.

On a year-to-date basis, retail sales were $20,993 million, an increase of $345 million, or 1.7%, compared to the same period in 2016. Year-to-date Food retail sales of $15,337 million were higher by $229 million, or 1.5%. Drug retail sales of $5,656 million were higher by $116 million, or 2.1%.

Year-to-date Food retail same-store sales decline was 0.5% (2016 – growth of 1.6%), after excluding the gas bar increase of 0.5% (2016 – decline of 0.4%). Food retail same-store sales reflect the impact of retail promotional investments and were relatively flat excluding the unfavourable impact of the timing of New Year's Day. Including gas bar, Food retail same-store sales were flat (2016 – 1.2%).

Year-to-date Drug retail same-store sales growth was 2.4%, with pharmacy same-store sales growth of 2.1% (2016 – 3.9%) and front store same-store sales growth of 2.5% (2016 – 6.3%). Excluding the unfavourable impact of the timing of New Year's Day, Drug retail same-store sales growth was approximately 2.7%, with pharmacy same-store sales growth of approximately 2.5% and front store same-store sales growth of approximately 2.9%.

Operating Income Operating income in the second quarter of 2017 was $578 million, an increase of $103 million compared to the second quarter of 2016. The increase in operating income was driven by improvements in underlying operating performance of $39 million and the favourable year-over-year net impact of adjusting items totaling $64 million, as described below:

- the improvements in underlying operating performance of $39 million were driven by higher sales and an increase in adjusted gross profit percentage(2), partially offset by higher SG&A and depreciation and amortization. The improvements in underlying operating performance also included the positive contribution from the consolidation of franchises; and
- the favourable year-over-year net impact of adjusting items totaling $64 million was primarily due to the following:
    - prior year restructuring and other related charges of $43 million;
    - prior year charges related to retail locations in Fort McMurray impacted by wildfires of $12 million; and
    - the change in fair value adjustment on fuel and foreign currency contracts of $11 million.

Year-to-date operating income was $1,024 million, an increase of $156 million compared to the same period in 2016. The increase in operating income was driven by improvements in underlying operating performance of $77 million and the favourable year-over-year net impact of adjusting items totaling $79 million, as described below:

- the improvements in underlying operating performance of $77 million were driven by higher sales and an increase in adjusted gross profit percentage(2), partially offset by higher SG&A. The improvements in underlying operating performance also included the positive contribution from the consolidation of franchises; and
- the favourable year-over-year net impact of adjusting items totaling $79 million was primarily due to the following:
    - prior year restructuring and other related charges of $44 million;
    - the change in fair value adjustment on fuel and foreign currency contracts of $15 million;
    - prior year charges related to retail locations in Fort McMurray impacted by wildfires of $12 million; and
    - a prior year land transfer tax assessment of $10 million.

Adjusted Gross Profit(2) Adjusted gross profit(2) in the second quarter of 2017 was $3,007 million, an increase of $181 million compared to the second quarter of 2016. Adjusted gross profit percentage(2) of 27.8% increased by 90 basis points compared to the second quarter of 2016. Excluding the consolidation of franchises, adjusted gross profit(2) increased by $96 million. Adjusted gross profit percentage(2), excluding the consolidation of franchises, was 26.7%, an increase of 30 basis points compared to the second quarter of 2016. The increase in adjusted gross profit percentage(2) was mainly driven by improvements in Food retail shrink partially offset by lower Drug retail margins.

Year-to-date adjusted gross profit(2) was $5,851 million, an increase of $248 million compared to the same period in 2016. Adjusted gross profit percentage(2) of 27.9% increased by 80 basis points compared to the same period in 2016. Excluding the consolidation of franchises, adjusted gross profit(2) increased by $83 million. Adjusted gross profit percentage(2), excluding the consolidation of franchises, was 26.8%, an increase of 10 basis points compared to the same period in 2016. The increase in adjusted gross profit percentage(2) was mainly driven by improvements in Food retail shrink and Drug retail margins partially offset by lower Food retail margins due to promotional investments.

Adjusted EBITDA(2) Adjusted EBITDA(2) in the second quarter of 2017 was $930 million, an increase of $55 million, compared to the second quarter of 2016 driven by an increase in adjusted gross profit(2) as described above, partially offset by an increase in SG&A of $126 million. SG&A as a percentage of sales was 19.2%, an increase of 60 basis points compared to the second quarter of 2016. Excluding the consolidation of franchises, SG&A increased $54 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 18.1%, an unfavourable increase of 10 basis points compared to the second quarter of 2016 mainly driven by certain one-time costs.

Year-to-date adjusted EBITDA(2) was $1,741 million, an increase of $86 million, compared to the same period in 2016 driven by an increase in year-to-date adjusted gross profit(2) as described above, partially offset by an increase in SG&A of $162 million. SG&A as a percentage of sales was 19.6%, an increase of 50 basis points compared to the same period in 2016. Excluding the consolidation of franchises, SG&A increased $23 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 18.5%, an improvement of 10 basis points compared to the same period in 2016 driven by the positive impact of store closures and divestitures effective in the second quarter of 2016, partially offset by certain one-time costs.

Depreciation and Amortization Depreciation and amortization in the second quarter of 2017 was $353 million, an increase of $14 million compared to the second quarter of 2016 primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $121 million (2016 – $123 million).

Year-to-date depreciation and amortization was $705 million, an increase of $4 million compared to the same period in 2016, primarily driven by the consolidation of franchises and an increase in IT assets, partially offset by the change in estimated useful life of certain equipment and fixtures in the second quarter of 2016. Included in depreciation and amortization is the amortization of intangibles assets related to the acquisition of Shoppers Drug Mart of $242 million (2016 – $247 million).

Other Retail Business Matters

Gas Bar Network On July 17, 2017, the Company sold its gas bar operations, for proceeds of approximately $540 million, to Brookfield Business Partners L.P. ("Brookfield"). As a result of the transaction, Brookfield has become a strategic partner to the Company and will continue to offer the Company's *PC Plus* loyalty program at the gas bars. Consistent with the first quarter of 2017, the Company has classified $78 million of fixed assets and $10 million of inventory, related to the gas bar operations, as assets held for sale as at June 17, 2017. In addition, the Company has classified $54 million of related accounts payable and accrued liabilities that will be assumed by the purchaser as liabilities held for sale as at June 17, 2017. In 2016, the gas bar operations sold approximately 1,700 million litres of gas and contributed approximately $1,500 million to sales. After taking into account the earnings associated with the gas bar operations and the ongoing commitment of the Company to fund certain loyalty program costs, the expected annual impact will be a reduction in adjusted EBITDA(2) of approximately $80 million, based on 2016 information. The Company expects to use the proceeds from the sale for general corporate activities.

Consolidation of Franchises The Company has more than 500 franchise food retail stores in its network. As at the end of the second quarter of 2017, 241 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 provides the total impact of the consolidation of franchises included in the consolidated results of the Company.

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars unless where otherwise indicated)	**2017 (12 weeks)**	2016 (12 weeks)	**2017 (24 weeks)**	2016 (24 weeks)
Number of Consolidated Franchise stores, beginning of period	**225**	115	**200**	85
Add: Net number of Consolidated Franchise stores in the period	**16**	17	**41**	47
Number of Consolidated Franchise stores, end of period	**241**	132	**241**	132
Sales	**$ 155**	$ 75	**$ 296**	$ 139
Adjusted gross profit(2)	**160**	75	**299**	134
Adjusted EBITDA(2)	**12**	(1)	**19**	(7)
Depreciation and amortization	**10**	4	**19**	8
Operating income (loss)	**2**	(5)	**—**	(15)
Net income (loss) attributable to Non-Controlling Interests	**3**	(5)	**2**	(14)

Operating income (loss) included in the table above does not significantly impact net earnings available to common shareholders of the Company as the related income (loss) is largely attributable to Non-Controlling Interests.

The Company expects that the estimated annual impact in 2017 of new and current consolidated franchises will be revenue of approximately $680 million, adjusted EBITDA(2) of approximately $55 million, depreciation and amortization of approximately $45 million and net earnings attributable to Non-Controlling Interests of approximately $10 million.

4.2 Financial Services Segment[(4)]

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	2017 (12 weeks)	2016 (12 weeks)	$ Change	% Change	2017 (24 weeks)	2016 (24 weeks)	$ Change	% Change
Revenue	**$ 225**	$ 214	$ 11	5.1 %	**$ 435**	$ 421	$ 14	3.3 %
Earnings before income taxes	**26**	29	(3)	(10.3)%	**51**	57	(6)	(10.5)%

(millions of Canadian dollars except where otherwise indicated)	As at June 17, 2017	As at June 18, 2016	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,841**	$ 2,717	$ 124	4.6 %
Credit card receivables	**2,908**	2,767	141	5.1 %
Allowance for credit card receivables	**48**	52	(4)	(7.7)%
Annualized yield on average quarterly gross credit card receivables	**13.3%**	13.6%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.0%**	4.5%		

Revenue Revenue in the second quarter of 2017 was $225 million, an increase of $11 million compared to the second quarter of 2016. Year-to-date revenue was $435 million, an increase of $14 million, compared to the same period in 2016. The increase in revenue in the second quarter of 2017 and year-to-date was primarily driven by:

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

Earnings before income taxes Earnings before income taxes in the second quarter of 2017 were $26 million, a decrease of $3 million compared to the second quarter of 2016. Year-to-date earnings before income taxes was $51 million, a decrease of $6 million, compared to the same period in 2016. The decrease in earnings before incomes taxes in the second quarter of 2017 and year-to-date was primarily driven by:

- higher operating costs and costs associated with the Financial Services' loyalty program; partially offset by
- revenue growth, as described above; and
- lower credit losses due to the strong credit performance of the portfolio.

Credit Card Receivables As at June 17, 2017, credit card receivables were $2,908 million, an increase of $141 million compared to June 18, 2016. 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 17, 2017, the allowance for credit card receivables was $48 million, a decrease of $4 million compared to June 18, 2016 due to the strong credit performance of the portfolio.

4.3 Choice Properties Segment[(4)]

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	**2017 (12 weeks)**	2016 (12 weeks)	$ Change	% Change	**2017 (24 weeks)**	2016 (24 weeks)	$ Change	% Change
Revenue	**$ 209**	$ 198	$ 11	5.6 %	**$ 412**	$ 390	$ 22	5.6 %
Net interest expense and other financing charges[(i)]	**98**	671	(573)	(85.4)%	**311**	939	(628)	(66.9)%
Net income (loss)[(ii)]	**42**	(560)	602	107.5 %	**66**	(692)	758	109.5 %
Funds from operations[(2)]	**108**	102	6	5.9 %	**217**	205	12	5.9 %

(i) Net interest expense and other financing charges includes a fair value adjustment on Class B Limited Partnership units.

(ii) Choice Properties qualifies as a "mutual fund trust" under the Income Tax Act (Canada) and therefore net income (loss) is equal to earnings before income taxes.

Revenue Revenue in the second quarter of 2017 was $209 million, an increase of $11 million compared to the second quarter of 2016 and included $182 million (2016 – $175 million) generated from tenants within the Retail segment. Year-to-date revenue was $412 million, an increase of $22 million compared to the same period in 2016 and included $360 million (2016 – $347 million) generated from tenants within the Retail segment. The increase in revenue in the second quarter of 2017 and year-to-date was primarily driven by:

- revenue from properties acquired in 2016 and 2017;
- an increase in base rent and operating cost recoveries from existing properties; and
- additional revenue generated from tenant openings in newly developed leasable space.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $98 million in the second quarter of 2017, a decrease of $573 million compared to the second quarter of 2016, primarily driven by the change in the fair value adjustment on Class B Limited Partnership units, partially offset by an increase in interest expense due to higher distributions on Class B Limited Partnership units and higher drawings on credit facilities.

Year-to-date net interest expense and other financing charges were $311 million, a decrease of $628 million compared to the same period in 2016, primarily driven by the change in the fair value adjustment on Class B Limited Partnership units, partially offset by an increase in interest expense due to higher distributions on Class B Limited Partnership units, higher drawings on credit facilities and a prior year gain on settlement of bond forwards.

Net income (loss) Net income in the second quarter of 2017 was $42 million, an increase of $602 million compared to the second quarter of 2016. Year-to-date net income was $66 million, an increase of $758 million compared to the same period in 2016. The increase in net income in the second quarter of 2017 and year-to-date was primarily driven by:

- the change in fair value adjustment on Class B Limited Partnership units;
- the change in fair value adjustment on investment properties;
- additional net operating income generated from acquisitions and tenant openings in newly developed leasable space; and
- an increase in base rent from existing properties.

Funds from Operations[(2)] Funds from Operations[(2)] in the second quarter of 2017 were $108 million, an increase of $6 million compared to the second quarter of 2016, primarily driven by higher contributions from property operations, partially offset by an increase in interest expense due to higher drawings on credit facilities.

Year-to-date Funds from Operations[(2)] were $217 million, an increase of $12 million compared to the same period in 2016 primarily driven by higher contributions from property operations, partially offset by an increase in interest expense due to higher drawings on credit facilities and a prior year gain on settlement of bond forwards.

5. Liquidity and Capital Resources

5.1 Cash Flows

Major Cash Flow Components

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	**2017 (12 weeks)**	2016 (12 weeks)	$ Change	% Change	**2017 (24 weeks)**	2016 (24 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 1,038**	$ 1,243	$ (205)	(16.5)%	**$ 1,314**	$ 1,018	$ 296	29.1 %
Cash flows from (used in):								
Operating activities	**872**	733	139	19.0 %	**1,251**	1,546	(295)	(19.1)%
Investing activities	**(318)**	(156)	(162)	(103.8)%	**(569)**	(290)	(279)	(96.2)%
Financing activities	**(316)**	(606)	290	47.9 %	**(720)**	(1,055)	335	31.8 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	**—**	(4)	4	100.0 %	**—**	(9)	9	100.0 %
Cash and cash equivalents, end of period	**$ 1,276**	$ 1,210	$ 66	5.5 %	**$ 1,276**	$ 1,210	$ 66	5.5 %

Cash Flows from Operating Activities Cash flows from operating activities in the second quarter of 2017 were $872 million, an increase of $139 million compared to the second quarter of 2016, primarily due to:

- a favourable change in non-cash working capital driven by lower trade payables and other liabilities at the end of the first quarter of 2017 due to the timing of Easter, partially offset by changes in accounts receivable and inventories; and
- higher cash earnings; partially offset by
- an increase in income taxes paid.

Year-to-date cash flows from operating activities were $1,251 million in 2017, a decrease of $295 million compared to the same period in 2016. The decrease was primarily due to:

- an unfavourable change in non-cash working capital driven by the timing of accounts receivable collection; and
- an increase in income taxes paid; partially offset by
- higher cash earnings.

Cash Flows used in Investing Activities Cash flows used in investing activities in the second quarter of 2017 were $318 million, an increase of $162 million compared to the second quarter of 2016. Year-to-date cash flows used in investing activities were $569 million, an increase of $279 million compared to the same period in 2016. The increase in cash flows used in investing activities in the second quarter and year-to-date was primarily driven by an increase in short term investments, attributable to reducing daily cash volatility.

Capital Investments and Store Activity

As at or for the periods ended June 17, 2017 and June 18, 2016	2017 (24 weeks)	2016 (24 weeks)	% Change
Capital investments (millions of Canadian dollars)	**$ 408**	$ 371	10.0 %
Corporate square footage (in millions)	**35.8**	35.7	0.3 %
Franchise square footage (in millions)	**16.1**	15.9	1.3 %
Associate-owned drug store square footage (in millions)	**18.2**	18.0	1.1 %
Total retail square footage (in millions)	**70.1**	69.6	0.7 %
Number of corporate stores	**565**	569	(0.7)%
Number of franchise stores	**530**	525	1.0 %
Number of Associate-owned drug stores	**1,330**	1,317	1.0 %
Total number of stores	**2,425**	2,411	0.6 %
Percentage of corporate real estate owned	**72%**	72%	
Percentage of franchise real estate owned	**47%**	47%	
Percentage of Associate-owned drug store real estate owned	**1%**	1%	
Average store size (square feet)			
Corporate	**63,400**	62,700	1.1 %
Franchise	**30,400**	30,300	0.3 %
Associate-owned drug store	**13,700**	13,700	— %

Cash Flows used in Financing Activities Cash flows used in financing activities in the second quarter of 2017 were $316 million, a decrease of $290 million compared to the second quarter of 2016. Year-to-date cash flows used in financing activities were $720 million, a decrease of $335 million compared to the same period in 2016. The decrease in cash used in financing activities in the second quarter and year-to-date was primarily driven by lower net repayments of long term debt, partially offset by higher repurchases of common shares.

The Company's significant long term debt transactions are set out in Section "5.3 Components of Total Debt".

Free Cash Flow(2)

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	2017 (12 weeks)	2016 (12 weeks)	$ Change	% Change	2017 (24 weeks)	2016 (24 weeks)	$ Change	% Change
Free cash flow(2)	**$ 547**	$ 432	$ 115	26.6%	**$ 624**	$ 944	$ (320)	(33.9)%

Free cash flow(2) in the second quarter of 2017 was $547 million, an increase of $115 million compared to the second quarter of 2016, primarily driven by higher cash flows from operating activities, as described above.

Year-to-date free cash flow(2) was $624 million in 2017, a decrease of $320 million compared to the same period in 2016, primarily driven by lower cash flows from operating activities, as described above.

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 segment:

				As at June 17, 2017				As at June 18, 2016				As at December 31, 2016
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Choice Properties**	**Total**	Retail	Financial Services	Choice Properties	Total	Retail	Financial Services	Choice Properties	Total
Bank indebtedness	**$ 284**	**$ —**	**$ 36**	**$ 320**	$ 269	$ —	$ —	$ 269	$ 115	$ —	$ —	$ 115
Short term debt	**—**	**560**	**—**	**560**	—	475	—	475	—	665	—	665
Long term debt due within one year	**398**	**182**	**1**	**581**	56	44	203	303	56	142	202	400
Long term debt	**5,640**	**1,391**	**3,307**	**10,338**	5,995	1,439	2,985	10,419	6,019	1,436	3,015	10,470
Certain other liabilities	**33**	**—**	**—**	**33**	32	—	—	32	31	—	—	31
Total debt	**$ 6,355**	**$ 2,133**	**$ 3,344**	**$ 11,832**	$ 6,352	$ 1,958	$ 3,188	$ 11,498	$ 6,221	$ 2,243	$ 3,217	$ 11,681

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 17, 2017	As at June 18, 2016	As at December 31, 2016
Retail debt to rolling year retail adjusted EBITDA[(2)]	**1.7x**	1.8x	1.7x

The Retail debt to rolling year retail adjusted EBITDA[(2)] ratio as at June 17, 2017 was flat compared to December 31, 2016 and decreased compared to June 18, 2016. The decrease in the Retail debt to rolling year retail adjusted EBITDA[(2)] ratio compared to June 18, 2016 was primarily as a result of growth in adjusted EBITDA[(2)].

President's Choice Bank 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 requirements as defined by the Office of the Superintendent of Financial Institutions ("OSFI").

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.

Covenants and Regulatory Requirements The Company and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at June 17, 2017 and throughout the first half of 2017, the Company and Choice Properties were in compliance with their respective covenants. As at June 17, 2017 and throughout the first half of 2017, PC Bank has met all applicable regulatory requirements.

Short Form Base Shelf Prospectus In the second quarter of 2017, the Company filed a Short Form Base Shelf Prospectus which allows for the potential issuance of up to $2 billion of unsecured debentures and/or preferred shares subject to the availability of funding in the capital markets.

5.3 Components of Total Debt

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

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**June 17, 2017 (12 weeks) Principal Amount**	June 18, 2016 (12 weeks) Principal Amount	**June 17, 2017 (24 weeks) Principal Amount**	June 18, 2016 (24 weeks) Principal Amount
Choice Properties senior unsecured debentures						
– Series G	3.20%	March 7, 2023	**$ —**	$ —	**$ —**	$ 250
– Series H	5.27%	March 7, 2046	**—**	—	**—**	100
Total Debentures and Medium Term Notes issued			**$ —**	$ —	**$ —**	$ 350

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

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**June 17, 2017 (12 weeks) Principal Amount**	June 18, 2016 (12 weeks) Principal Amount	**June 17, 2017 (24 weeks) Principal Amount**	June 18, 2016 (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 6	3.00%	April 20, 2017(i)	**—**	—	**200**	—
Choice Properties senior unsecured debentures – Series 5	3.00%	April 20, 2016(ii)	**—**	—	**—**	300
Total Debentures and Medium Term Notes repaid			**$ —**	$ 525	**$ 200**	$ 825

(i) Choice Properties Series 6 unsecured debentures were redeemed on January 23, 2017.

(ii) Choice Properties Series 5 unsecured debentures were redeemed on March 7, 2016.

Committed Credit Facilities The components of the committed lines of credit as at June 17, 2017, June 18, 2016 and December 31, 2016 were as follows:

		As at June 17, 2017		As at June 18, 2016		As at December 31, 2016	
(millions of Canadian dollars)	Maturity Date	**Available Credit**	**Drawn**	Available Credit	Drawn	Available Credit	Drawn
Loblaw's Committed Credit Facility	June 10, 2021	**$ 1,000**	**$ —**	$ 1,000	$ —	$ 1,000	$ —
Choice Properties Committed Syndicated Credit Facility	July 5, 2021	**500**	**214**	500	142	500	172
Choice Properties Committed Bi-lateral Credit Facility	December 21, 2018	**250**	**250**	—	—	250	—
Total Committed Lines of Credit		**$ 1,750**	**$ 464**	$ 1,500	$ 142	$ 1,750	$ 172

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 17, 2017**	As at June 18, 2016	As at December 31, 2016
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust*®	**$ 650**	$ 650	$ 650
Securitized to Other Independent Securitization Trusts	**560**	475	665
Total securitized to independent securitization trusts	**$ 1,210**	$ 1,125	$ 1,315

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 17, 2017 and throughout the first half of 2017.

Independent Funding Trusts As at June 17, 2017, the independent funding trusts had drawn $555 million (June 18, 2016 – $545 million; December 31, 2016 – $587 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at June 17, 2017, the Company has agreed to provide a credit enhancement of $64 million (June 18, 2016 – $58 million; December 31, 2016 – $64 million) for the benefit of the independent funding trusts representing not less than 10% (June 18, 2016 and December 31, 2016 – not less than 10%) of the principal amount of loans outstanding.

5.4 Financial Condition

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

	As at June 17, 2017	As at June 18, 2016[(5)]	As at December 31, 2016
Rolling year adjusted return on equity[(2)]	**13.6%**	12.0%	12.9%
Rolling year adjusted return on capital[(2)]	**9.3%**	8.1%	8.8%

The rolling year adjusted return on equity[(2)] as at June 17, 2017 increased compared to June 18, 2016 and December 31, 2016, primarily due to higher adjusted net earnings and common shares repurchased. The rolling year adjusted return on capital[(2)] as at June 17, 2017 increased compared to June 18, 2016 and December 31, 2016 primarily due to the factors noted above, as well as an increase in cash and cash equivalents and short term investments.

5.5 Credit Ratings

In the second quarter of 2017, Standard and Poor's reaffirmed the credit ratings and outlook of the Company. 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

Subsequent to the end of the second quarter of 2017, Standard and Poor's reaffirmed the credit ratings and outlook of Choice Properties. 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

5.6 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:

	June 17, 2017 (12 weeks)		June 18, 2016 (12 weeks)		**June 17, 2017 (24 weeks)**		June 18, 2016 (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	**398,351,252**	**$ 7,671**	407,324,440	$ 7,828	**400,829,870**	**$ 7,713**	409,985,226	$ 7,861
Issued for settlement of stock options	**277,055**	**14**	183,394	8	**501,930**	**24**	914,608	40
Purchased and cancelled	**(3,379,400)**	**(66)**	(1,970,000)	(38)	**(6,082,893)**	**(118)**	(5,362,000)	(103)
Issued and outstanding, end of period	**395,248,907**	**$ 7,619**	405,537,834	$ 7,798	**395,248,907**	**$ 7,619**	405,537,834	$ 7,798
Shares held in trust, beginning of period	**(1,785,131)**	**$ (34)**	(1,187,318)	$ (22)	**(1,105,620)**	**$ (21)**	(643,452)	$ (10)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	—	—	**(686,000)**	**(13)**	(1,250,000)	(24)
Released for settlement of RSUs and PSUs	**926,325**	**18**	27,453	—	**932,814**	**18**	733,587	12
Shares held in trust, end of period	**(858,806)**	**$ (16)**	(1,159,865)	$ (22)	**(858,806)**	**$ (16)**	(1,159,865)	$ (22)
Issued and outstanding, net of shares held in trust, end of period	**394,390,101**	**$ 7,603**	404,377,969	$ 7,776	**394,390,101**	**$ 7,603**	404,377,969	$ 7,776
Weighted average outstanding, net of shares held in trust	**396,370,522**		406,094,151		**397,912,758**		407,553,460	

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 17, 2017 (12 weeks)	June 18, 2016 (12 weeks)	June 17, 2017 (24 weeks)	June 18, 2016 (24 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**3,379,400**	1,970,000	**6,082,893**	5,362,000
Cash consideration paid	**$ 260**	$ 132	**$ 452**	$ 363
Premium charged to Retained Earnings	**194**	94	**334**	260
Reduction in Common Share Capital	**66**	38	**118**	103
Common shares repurchased under the NCIB and held in trust (number of shares)	**—**	—	**686,000**	1,250,000
Cash consideration paid	**$ —**	$ —	**$ 48**	$ 90
Premium charged to Retained Earnings	**—**	—	**35**	66
Reduction in Common Share Capital	**—**	—	**13**	24

In the second quarter of 2017, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 21,016,472 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 following table summarizes the Company's cash dividends declared for the periods as indicated:

	June 17, 2017[(i)] (12 weeks)	June 18, 2016 (12 weeks)	June 17, 2017 (24 weeks)	June 18, 2016 (24 weeks)
Dividends declared per share ($):				
Common Share	**$ 0.27**	$ 0.26	**$ 0.53**	$ 0.51
Second Preferred Share, Series B	**$ 0.33125**	$ 0.33125	**$ 0.66250**	$ 0.66250

(i) The second quarter dividends for 2017 of $0.27 per share declared on common shares had a payment date of July 1, 2017. The second quarter dividends for 2017 of $0.33125 per share declared on Second Preferred Shares, Series B had a payment date of June 30, 2017.

(millions of Canadian dollars)	June 17, 2017 (12 weeks)	June 18, 2016 (12 weeks)	June 17, 2017 (24 weeks)	June 18, 2016 (24 weeks)
Dividends declared:				
Common Share	**$ 106**	$ 106	**$ 210**	$ 208
Second Preferred Share, Series B	**3**	3	**6**	6
Total dividends declared	**$ 109**	$ 109	**$ 216**	$ 214

Subsequent to the end of the second quarter of 2017, the Board of Directors ("Board") declared a quarterly dividend of $0.27 per common share, payable on October 1, 2017 to shareholders of record on September 15, 2017 and a dividend on the Second Preferred Shares, Series B of $0.33125 per share payable on September 30, 2017 to shareholders of record on September 15, 2017.

5.7 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 2017. For a discussion of the Company's significant off-balance sheet arrangements see Section 7.7 "Off-Balance Sheet Arrangements" of the Company's 2016 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 2017.

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 2017 see Section 12 "Non-GAAP Financial Measures" of the MD&A.

7. Results by Quarter

Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. Fiscal years 2017 and 2016 were 52 weeks. The next 53 week year will occur in 2020. 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	
(millions of Canadian dollars except where otherwise indicated)	**2017 (12 weeks)**	**2016 (12 weeks)**	2017 (12 weeks)	2016 (12 weeks)	2016 (12 weeks)	2015 (12 weeks)	2016 (16 weeks)	2015 (16 weeks)
Revenue	**$ 11,079**	**$ 10,731**	$ 10,401	$ 10,381	$ 11,130	$ 10,865	$ 14,143	$ 13,946
Net earnings available to common shareholders of the Company	**358**	**158**	230	193	201	128	419	166
Adjusted net earnings available to common shareholders of the Company(2)	**445**	**412**	364	338	393	363	512	408
Net earnings per common share:								
Basic ($)	**$ 0.90**	**$ 0.39**	$ 0.58	$ 0.47	$ 0.50	$ 0.31	$ 1.04	$ 0.40
Diluted ($)	**$ 0.89**	**$ 0.39**	$ 0.57	$ 0.47	$ 0.50	$ 0.31	$ 1.03	$ 0.40
Adjusted diluted net earnings per common share (2) ($)	**$ 1.11**	**$ 1.01**	$ 0.90	$ 0.82	$ 0.97	$ 0.87	$ 1.26	$ 0.98
Average national food price (deflation) inflation (as measured by CPI)	**(1.4)%**	**1.8%**	(3.9)%	4.3%	(2.3)%	4.1%	0.2%	3.8%
Food retail same-store sales growth (decline)	**1.2 %**	**0.4%**	(1.2)%	2.0%	1.1 %	2.4%	0.8%	1.3%
Drug retail same-store sales growth	**3.7 %**	**4.0%**	0.9 %	6.3%	3.4 %	5.0%	2.8%	4.9%

Revenue Revenue for the last eight quarters was impacted by various factors including the following:

- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- macro-economic conditions impacting food and drug retail prices;
- the changes in the price of fuel sold at the Company's gas bars;
- consolidation of franchises; and
- changes in net retail square footage. Over the past eight quarters, net retail square footage increased by 0.1 million square feet to 70.1 million square feet, primarily driven by new store openings partially offset by the Company's store closure plan announced in 2015 and completed in the first half of 2016.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share 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 following items:

- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- acquisition-related net synergies;
- the impact of the Company's store closure plan;
- improvements in the underlying operating performance of the Company; and
- the impact of adjusting items, as set out in Section 12 "Non-GAAP Financial Measures", including:
    - the impairment of Drug retail ancillary assets held for sale;
    - restructuring and other related charges;
    - the transition of stores to more cost effective and efficient labour agreements;
    - asset impairments, net of recoveries; and
    - the change in fair value adjustment to Trust Unit Liability.

The consolidation of franchises does not significantly impact net earnings available to common shareholders of the Company as the related earnings are largely attributable to Non-Controlling Interests.

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 2017 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 December 31, 2016 and the Company's MD&A in the Company's 2016 Annual Report, which are hereby incorporated by reference. The Company's 2016 Annual Report and AIF are available online on www.sedar.com. Those risks and risk management strategies remain unchanged.

10. Accounting Standards

Accounting Standards Implemented in 2017

Statement of Cash Flows The Company implemented the amendments to International Accounting Standard ("IAS") 7, "Statement of Cash Flows", in the first quarter of 2017 and has provided disclosures on changes in liabilities arising from certain financing activities, including both changes arising from cash and non-cash flows changes, in the notes to the unaudited interim period condensed consolidated financial statements.

Changes in Accounting Standards

Income Taxes In November 2016, the IFRS Interpretations Committee issued its agenda decision related to the expected manner of recovery of indefinite life intangible assets when measuring deferred income taxes in accordance with IAS 12, "Income Taxes", and clarified its interpretation that an indefinite life intangible asset does not have an unlimited life and its economic benefit flows to an entity in future periods through use and not just through future sale. Accordingly, it is appropriate to measure the associated deferred income tax liability at the income tax rate applicable to ordinary taxable income expected to apply in the years in which the temporary differences are expected to be recovered or settled. The Company's accounting policy reflected an accepted view that an indefinite life intangible asset will be recovered through its disposition and was using a capital gains tax rate to measure deferred income taxes associated with its indefinite life intangible assets. The Company implemented this guidance in the fourth quarter of 2016 on a retrospective basis as an accounting policy change in accordance with IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors". The impact of this change was as follows:

Condensed Consolidated Balance Sheet

Increase (Decrease) (millions of Canadian dollars)	As at June 18, 2016
Goodwill	$ 418
Deferred Income Tax Liabilities	458
Retained Earnings	(40)

There was no impact to net earnings in 2016 as a result of this change.

11. Outlook[(3)]

Loblaw's outlook for 2017 remains unchanged. Loblaw remains focused on its strategic framework, delivering the best in food, best in health and beauty, operational excellence and growth. This framework is supported by our financial plan of maintaining a stable trading environment that targets positive same-store sales and stable gross margin, surfacing efficiencies to deliver operating leverage, and returning capital to shareholders.

In 2017, on a full-year comparative basis, despite the current deflationary environment, the Company expects to:

- deliver positive same-store sales and stable gross margin in its Retail segment in a highly competitive grocery market, 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.

Beyond 2017, the recent announcements of minimum wage increases in Ontario and Alberta and further healthcare reform in Quebec will negatively impact the Company's net earnings. The expected incremental impact of minimum wage increases on labour expenses is approximately $190 million in 2018. In addition, the recently announced healthcare reform in Quebec will result in a more significant incremental impact in 2018 than in prior years. The Company is currently assessing how to mitigate these impacts.

12. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: Retail segment gross profit; Retail segment adjusted gross profit; Retail segment adjusted gross profit percentage; adjusted earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("adjusted EBITDA"); adjusted EBITDA margin; adjusted operating income; adjusted net interest expense and other financing charges; adjusted income taxes; adjusted income tax rate; adjusted net earnings available to common shareholders; 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: 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 Gross Profit, Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage The following tables reconcile adjusted gross profit by segment to gross profit by segment, which is reconciled to GAAP revenue and cost of merchandise inventories sold measures reported in the condensed consolidated statements of earnings for the periods ended as indicated. The Company believes that Retail segment gross profit and Retail segment adjusted gross profit are useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

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

					2017 (12 weeks)					2016 (12 weeks)
For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars)	**Retail**	**Financial Services[(4)]**	**Choice Properties[(4)]**	**Consolidation & Eliminations**	**Total**	Retail	Financial Services[(4)]	Choice Properties[(4)]	Consolidation & Eliminations	Total
Revenue	**$ 10,827**	**$ 225**	**$ 209**	**$ (182)**	**$ 11,079**	$ 10,494	$ 214	$ 198	$ (175)	$ 10,731
Cost of Merchandise Inventories Sold	**7,820**	**22**	**—**	**—**	**7,842**	7,683	18	—	—	7,701
Gross Profit	**$ 3,007**	**$ 203**	**$ 209**	**$ (182)**	**$ 3,237**	$ 2,811	$ 196	$ 198	$ (175)	$ 3,030
Add impact of the following:										
Charges related to retail locations in Fort McMurray	**—**	**—**	**—**	**—**	**—**	9	—	—	—	9
Net impairment (impairment reversals) related to Drug retail ancillary assets	**—**	**—**	**—**	**—**	**—**	4	—	—	—	4
Restructuring and other related costs	**—**	**—**	**—**	**—**	**—**	2	—	—	—	2
Adjusted Gross Profit	**$ 3,007**	**$ 203**	**$ 209**	**$ (182)**	**$ 3,237**	$ 2,826	$ 196	$ 198	$ (175)	$ 3,045

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars)	2017 (24 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation & Eliminations	Total	2016 (24 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation & Eliminations	Total
Revenue	**$ 20,993**	**$ 435**	**$ 412**	**$ (360)**	**$ 21,480**	$ 20,648	$ 421	$ 390	$ (347)	$ 21,112
Cost of Merchandise Inventories Sold	**15,142**	**40**	**—**	**—**	**15,182**	15,061	34	—	—	15,095
Gross Profit	**$ 5,851**	**$ 395**	**$ 412**	**$ (360)**	**$ 6,298**	$ 5,587	$ 387	$ 390	$ (347)	$ 6,017
Add impact of the following:										
Charges related to retail locations in Fort McMurray	**—**	**—**	**—**	**—**	**—**	9	—	—	—	9
Net impairment (impairment reversals) related to Drug retail ancillary assets	**—**	**—**	**—**	**—**	**—**	4	—	—	—	4
Restructuring and other related costs	**—**	**—**	**—**	**—**	**—**	3	—	—	—	3
Adjusted Gross Profit	**$ 5,851**	**$ 395**	**$ 412**	**$ (360)**	**$ 6,298**	$ 5,603	$ 387	$ 390	$ (347)	$ 6,033

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 inventory losses, site clean-up and other restoration costs.

Net impairment (impairment reversals) related to 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 2016, the Company finalized the sale of a portion of these assets.

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.

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.

Adjusted Operating Income, Adjusted EBITDA and Adjusted EBITDA Margin The following tables reconcile adjusted operating income and adjusted EBITDA to GAAP operating income, which is reconciled to GAAP net earnings attributable to shareholders of the Company reported in the condensed consolidated statements of earnings for the periods ended as indicated. 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.

					2017 (12 weeks)					2016 (12 weeks)
For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars)	**Retail**	**Financial Services(4)**	**Choice Properties(4)**	**Consolidation & Eliminations**	**Consolidated**	Retail	Financial Services(4)	Choice Properties(4)	Consolidation & Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					**$ 361**					$ 161
Add (deduct) impact of the following:										
Non-Controlling Interests					**3**					(5)
Net interest expense and other financing charges					**127**					236
Income taxes					**135**					125
Operating income	**$ 578**	**$ 39**	**$ 140**	**$ (131)**	**$ 626**	$ 475	$ 41	$ 111	$ (110)	$ 517
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 121**	**$ —**	**$ —**	**$ —**	**$ 121**	$ 123	$ —	$ —	$ —	$ 123
Fair value adjustment on fuel and foreign currency contracts	**(1)**	**—**	**—**	**—**	**(1)**	10	—	—	—	10
Restructuring and other related costs	**—**	**—**	**—**	**—**	**—**	43	—	—	—	43
Charges related to retail locations in Fort McMurray	**—**	**—**	**—**	**—**	**—**	12	—	—	—	12
Net impairment (impairment reversals) related to Drug retail ancillary assets	**—**	**—**	**—**	**—**	**—**	(4)	—	—	—	(4)
Adjusting Items	**$ 120**	**$ —**	**$ —**	**$ —**	**$ 120**	$ 184	$ —	$ —	$ —	$ 184
Adjusted operating income	**$ 698**	**$ 39**	**$ 140**	**$ (131)**	**$ 746**	$ 659	$ 41	$ 111	$ (110)	$ 701
Depreciation and amortization	**353**	**2**	**—**	**5**	**360**	339	3	—	4	346
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(121)**	**—**	**—**	**—**	**(121)**	(123)	—	—	—	(123)
Adjusted EBITDA	**$ 930**	**$ 41**	**$ 140**	**$ (126)**	**$ 985**	$ 875	$ 44	$ 111	$ (106)	$ 924

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars)	2017 (24 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation & Eliminations	Consolidated	2016 (24 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation & Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					$ 594					$ 357
Add (deduct) impact of the following:										
Non-Controlling Interests					2					(14)
Net interest expense and other financing charges					288					393
Income taxes					234					217
Operating income	$ 1,024	$ 78	$ 377	$ (361)	$ 1,118	$ 868	$ 82	$ 247	$ (244)	$ 953
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	$ 242	$ —	$ —	$ —	$ 242	$ 247	$ —	$ —	$ —	$ 247
Pension annuities and buy-outs	7	—	—	—	7	2	—	—	—	2
Fair value adjustment on fuel and foreign currency contracts	5	—	—	—	5	20	—	—	—	20
Restructuring and other related costs	—	—	—	—	—	44	—	—	—	44
Charges related to retail locations in Fort McMurray	—	—	—	—	—	12	—	—	—	12
Prior year land transfer tax assessment	—	—	—	—	—	10	—	—	—	10
Asset impairments, net of recoveries	—	—	—	—	—	2	—	—	—	2
Net impairment (impairment reversals) related to Drug retail ancillary assets	—	—	—	—	—	(4)	—	—	—	(4)
Adjusting Items	$ 254	$ —	$ —	$ —	$ 254	$ 333	$ —	$ —	$ —	$ 333
Adjusted operating income	$ 1,278	$ 78	$ 377	$ (361)	$ 1,372	$ 1,201	$ 82	$ 247	$ (244)	$ 1,286
Depreciation and amortization	705	5	—	10	720	701	6	—	7	714
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(242)	—	—	—	(242)	(247)	—	—	—	(247)
Adjusted EBITDA	$ 1,741	$ 83	$ 377	$ (351)	$ 1,850	$ 1,655	$ 88	$ 247	$ (237)	$ 1,753

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

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in 2014 included approximately $6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangibles will be approximately $525 million until 2024, and will decrease thereafter.

Pension annuities and buy-outs The Company is undertaking 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.

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 land transfer 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 in the first quarter of 2016 to SG&A in the Retail segment.

Asset 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.

Adjusted Net Interest Expense and Other Financing Charges The following table reconciles adjusted net interest expense and other financing charges to GAAP net interest expense and other financing charges reported in the condensed consolidated statements of earnings for the periods ended as indicated. 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 June 17, 2017 and June 18, 2016 (millions of Canadian dollars)	**2017 (12 weeks)**	2016 (12 weeks)	**2017 (24 weeks)**	2016 (24 weeks)
Net interest expense and other financing charges	**$ 127**	$ 236	**$ 288**	$ 393
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**1**	(108)	**(35)**	(140)
Adjusted net interest expense and other financing charges	**$ 128**	$ 128	**$ 253**	$ 253

Fair value adjustment to the Trust Unit Liability The Company is exposed to market price fluctuations as a result of the Choice Properties' Trust Units ("Units") held by unitholders other than the Company. These Units are presented as a liability on the Company's condensed consolidated balance sheets as they are redeemable for cash at the option of the holder, subject to certain restrictions. This liability is recorded at fair value at each reporting date based on the market price of Units at the end of each period. An increase (decrease) in the market price of Units results in a charge (reduction) to net interest expense and other financing charges.

Adjusted Income Taxes and Adjusted Income Tax Rate The following table reconciles adjusted income taxes to GAAP income taxes reported in the condensed consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted income taxes is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

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.

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	**2017 (12 weeks)**	2016 (12 weeks)	**2017 (24 weeks)**	2016 (24 weeks)
Adjusted operating income[(i)]	**$ 746**	$ 701	**$ 1,372**	$ 1,286
Adjusted net interest expense and other financing charges[(i)]	**128**	128	**253**	253
Adjusted earnings before taxes	**$ 618**	$ 573	**$ 1,119**	$ 1,033
Income taxes	**$ 135**	$ 125	**$ 234**	$ 217
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes[(ii)]	**32**	38	**68**	77
Statutory corporate income tax rate change	**—**	—	**—**	(3)
Adjusted income taxes	**$ 167**	$ 163	**$ 302**	$ 291
Effective tax rate	**27.1%**	44.5%	**28.2%**	38.8%
Adjusted income tax rate	**27.0%**	28.4%	**27.0%**	28.2%

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

(ii) See the adjusted operating income, 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.

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

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

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings Per Common Share The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted net earnings attributable to shareholders of the Company to net earnings attributable to shareholders of the Company and then to net earnings available to common shareholders of the Company for the periods ended as indicated. The Company believes that adjusted net earnings available to common shareholders 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.

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	**2017 (12 weeks)**	2016 (12 weeks)	**2017 (24 weeks)**	2016 (24 weeks)
Net earnings attributable to shareholders of the Company	**$ 361**	$ 161	**$ 594**	$ 357
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(6)**	(6)
Net earnings available to common shareholders of the Company	**$ 358**	$ 158	**$ 588**	$ 351
Net earnings attributable to shareholders of the Company	**$ 361**	$ 161	**$ 594**	$ 357
Adjusting items (refer to the following table)	**87**	254	**221**	399
Adjusted net earnings attributable to shareholders of the Company	**$ 448**	$ 415	**$ 815**	$ 756
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(6)**	(6)
Adjusted net earnings available to common shareholders of the Company	**$ 445**	$ 412	**$ 809**	$ 750
Diluted weighted average common shares outstanding (millions)	**400.3**	409.9	**401.3**	411.5

The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share to net earnings available to common shareholders of the Company and diluted net earnings per common share for the periods ended as indicated.

	2017 (12 weeks)		2016 (12 weeks)		**2017 (24 weeks)**		2016 (24 weeks)	
For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars/Canadian dollars)	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
As reported	**$ 358**	**$ 0.89**	$ 158	$ 0.39	**$ 588**	**$ 1.47**	$ 351	$ 0.85
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 88**	**$ 0.22**	$ 92	$ 0.23	**$ 177**	**$ 0.44**	$ 183	$ 0.45
Fair value adjustment to the Trust Unit Liability(i)	**(1)**	**—**	108	0.26	**35**	**0.09**	140	0.34
Pension annuities and buy-outs	**—**	**—**	—	—	**5**	**0.01**	2	—
Fair value adjustment on fuel and foreign currency contracts	**—**	**—**	8	0.02	**4**	**0.01**	15	0.04
Restructuring and other related costs	**—**	**—**	40	0.10	**—**	**—**	41	0.10
Charges related to retail locations in Fort McMurray	**—**	**—**	9	0.02	**—**	**—**	9	0.02
Prior year land transfer tax assessment	**—**	**—**	—	—	**—**	**—**	7	0.02
Statutory corporate income tax rate change	**—**	**—**	—	—	**—**	**—**	3	0.01
Asset impairments, net of recoveries	**—**	**—**	—	—	**—**	**—**	2	—
Net impairment (impairment reversals) related to Drug retail ancillary assets	**—**	**—**	(3)	(0.01)	**—**	**—**	(3)	(0.01)
Adjusting items	**$ 87**	**$ 0.22**	$ 254	$ 0.62	**$ 221**	**$ 0.55**	$ 399	$ 0.97
Adjusted	**$ 445**	**$ 1.11**	$ 412	$ 1.01	**$ 809**	**$ 2.02**	$ 750	$ 1.82

(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 to cash flows from operating activities reported in the condensed consolidated statements of cash flows for the periods ended as indicated. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars)	**2017 (12 weeks)**	2016 (12 weeks)	**2017 (24 weeks)**	2016 (24 weeks)
Cash flows from operating activities	**$ 872**	$ 733	**$ 1,251**	$ 1,546
Less:				
Capital investments	**254**	214	**408**	371
Interest paid	**71**	87	**219**	231
Free cash flow	**$ 547**	$ 432	**$ 624**	$ 944

Retail Debt to Rolling Year Retail Adjusted EBITDA, Rolling Year Adjusted Return on Equity and Rolling Year Adjusted Return on Capital The Company uses the following metrics to measure its leverage and profitability. The definitions of these ratios are presented below.

- ***Retail Debt to Rolling Year Retail Adjusted EBITDA*** Retail segment total debt divided by Retail segment adjusted EBITDA for the last four quarters.
- ***Rolling Year Adjusted Return on Equity*** Adjusted net earnings available to common shareholders of the Company for the last four quarters divided by average total equity attributable to common shareholders of the Company.
- ***Rolling Year Adjusted Return on Capital*** Tax-effected adjusted operating income for the last four quarters divided by average capital where capital is defined as total debt, plus equity attributable to shareholders of the Company, less cash and cash equivalents, and short term investments.

Choice Properties' Funds from Operations[(4)] In the first quarter of 2017, Choice Properties discontinued the use of Adjusted Funds from Operations. Choice Properties continues the use of Funds from Operations as its non-GAAP earnings metric. Choice Properties calculates Funds from Operations in accordance with the Real Property Association of Canada's White Paper on Funds from Operations and Adjusted Funds from Operations for IFRS issued in February 2017.

The following table reconciles Choice Properties' Funds from Operations to GAAP net income (loss) for the periods ended as indicated. Choice Properties considers Funds from Operations to be a useful measure of operating performance as it adjusts for items included in net income (or net loss) that do not arise from operating activities or do not necessarily provide an accurate depiction of the Trust's performance.

For the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars)	**2017 (12 weeks)**	2016 (12 weeks)	**2017 (24 weeks)**	2016 (24 weeks)
Net income (loss)	**$ 42**	$ (560)	**$ 66**	$ (692)
Add (deduct) impact of the following:				
Fair value adjustments on Class B Limited Partnership units	**—**	580	**118**	761
Fair value adjustments on investment properties	**8**	23	**(85)**	37
Fair value adjustments on unit-based compensation	**—**	4	**1**	5
Fair value adjustments of investment property held in equity accounted joint venture	**—**	—	**1**	(14)
Distributions on Class B Limited Partnership units	**58**	53	**115**	106
Internal expenses for leasing	**—**	2	**1**	2
Funds from Operations	**$ 108**	$ 102	**$ 217**	$ 205

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 25, 2017
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 127 of the Company's 2016 Annual Report.

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

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

(4) For segment presentation purposes, the results are for the period ended June 30, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to the Company's fiscal calendar are included in Consolidation and Eliminations. See Section 12 "Non-GAAP Financial Measures" and Note 19 "Segment Information" in the Company's 2017 unaudited interim period condensed consolidated financial statements.

(5) Certain figures have been restated as a result of the IFRS Interpretations Committee's agenda decision on IAS 12, "Income Taxes". See Note 2 "Significant Accounting Policies" in the Company's 2017 unaudited interim period condensed consolidated financial statements and 2016 audited annual consolidated financial statements.

Financial Results

Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Revenue	**$ 11,079**	$ 10,731	**$ 21,480**	$ 21,112
Cost of Merchandise Inventories Sold	**7,842**	7,701	**15,182**	15,095
Selling, General and Administrative Expenses	**2,611**	2,513	**5,180**	5,064
Operating Income	**$ 626**	$ 517	**$ 1,118**	$ 953
Net interest expense and other financing charges (note 4)	**127**	236	**288**	393
Earnings Before Income Taxes	**$ 499**	$ 281	**$ 830**	$ 560
Income taxes (note 5)	**135**	125	**234**	217
Net Earnings	**$ 364**	$ 156	**$ 596**	$ 343
Attributable to:				
Shareholders of the Company	**$ 361**	$ 161	**$ 594**	$ 357
Non-Controlling Interests	**3**	(5)	**2**	(14)
Net Earnings	**$ 364**	$ 156	**$ 596**	$ 343
Net Earnings per Common Share ($) (note 6)				
Basic	**$ 0.90**	$ 0.39	**$ 1.48**	$ 0.86
Diluted	**$ 0.89**	$ 0.39	**$ 1.47**	$ 0.85
Weighted Average Common Shares Outstanding (millions) (note 6)				
Basic	**396.4**	406.1	**397.9**	407.6
Diluted	**400.3**	409.9	**401.3**	411.5

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

Condensed Consolidated Statements of Comprehensive Income

(millions of Canadian dollars) (unaudited)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Net Earnings	**$ 364**	$ 156	**$ 596**	$ 343
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment gain	**$ 1**	$ 2	**$ 1**	$ 6
Unrealized gain (loss) on cash flow hedges (note 17)	**1**	—	**1**	(2)
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial losses (note 16)	**(20)**	(19)	**(43)**	(101)
Other comprehensive loss	**$ (18)**	$ (17)	**$ (41)**	$ (97)
Total Comprehensive Income	**$ 346**	$ 139	**$ 555**	$ 246
Attributable to:				
Shareholders of the Company	**$ 343**	$ 144	**$ 553**	$ 260
Non-Controlling Interests	**3**	(5)	**2**	(14)
Total Comprehensive Income	**$ 346**	$ 139	**$ 555**	$ 246

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

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Preferred Share Capital	**Total Share Capital**	**Retained Earnings**	**Contributed Surplus**	Foreign Currency Translation Adjustment	Cash Flow Hedges	**Accumulated Other Comprehensive Income**	**Non-Controlling Interests**	**Total Equity**
Balance at December 31, 2016	$ 7,692	$ 221	**$ 7,913**	**$ 4,944**	**$ 112**	$ 33	$ —	**$ 33**	**$ 26**	**$ 13,028**
Net earnings	$ —	$ —	**$ —**	**$ 594**	**$ —**	$ —	$ —	**$ —**	**$ 2**	**$ 596**
Other comprehensive income (loss)	—	—	**—**	**(43)**	**—**	1	1	**2**	**—**	**(41)**
Total Comprehensive Income (Loss)	$ —	$ —	**$ —**	**$ 551**	**$ —**	$ 1	$ 1	**$ 2**	**$ 2**	**$ 555**
Common shares purchased and cancelled (note 14)	(118)	—	**(118)**	**(334)**	**—**	—	—	**—**	**—**	**(452)**
Net effect of equity-based compensation (notes 14 and 15)	24	—	**24**	**(22)**	**(21)**	—	—	**—**	**—**	**(19)**
Shares purchased and held in trust (note 14)	(13)	—	**(13)**	**(35)**	**—**	—	—	**—**	**—**	**(48)**
Shares released from trust (notes 14 and 15)	18	—	**18**	**47**	**—**	—	—	**—**	**—**	**65**
Dividends declared per common share – $0.53 (note 14)	—	—	**—**	**(210)**	**—**	—	—	**—**	**—**	**(210)**
Dividends declared per preferred share – $0.66250 (note 14)	—	—	**—**	**(6)**	**—**	—	—	**—**	**—**	**(6)**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	**—**	**(5)**	**(5)**
	$ (89)	$ —	**$ (89)**	**$ (9)**	**$ (21)**	$ 1	$ 1	**$ 2**	**$ (3)**	**$ (120)**
Balance at June 17, 2017	$ 7,603	$ 221	**$ 7,824**	**$ 4,935**	**$ 91**	$ 34	$ 1	**$ 35**	**$ 23**	**$ 12,908**

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Preferred Share Capital	**Total Share Capital**	**Retained Earnings(i)**	**Contributed Surplus**	Foreign Currency Translation Adjustment	Cash Flow Hedges	**Accumulated Other Comprehensive Income**	**Non-Controlling Interests**	**Total Equity(i)**
Balance at January 2, 2016	$ 7,851	$ 221	**$ 8,072**	**$ 4,914**	**$ 102**	$ 22	$ 1	**$ 23**	**$ 13**	**$ 13,124**
Net earnings	$ —	$ —	**$ —**	**$ 357**	**$ —**	$ —	$ —	**$ —**	**$ (14)**	**$ 343**
Other comprehensive income (loss)	—	—	**—**	**(101)**	**—**	6	(2)	**4**	**—**	**(97)**
Total Comprehensive Income (Loss)	$ —	$ —	**$ —**	**$ 256**	**$ —**	$ 6	$ (2)	**$ 4**	**$ (14)**	**$ 246**
Common shares purchased and cancelled (note 14)	(103)	—	**(103)**	**(260)**	**—**	—	—	**—**	**—**	**(363)**
Net effect of equity-based compensation (notes 14 and 15)	40	—	**40**	**(17)**	**(13)**	—	—	**—**	**—**	**10**
Shares purchased and held in trust (note 14)	(24)	—	**(24)**	**(66)**	**—**	—	—	**—**	**—**	**(90)**
Shares released from trust (notes 14 and 15)	12	—	**12**	**34**	**—**	—	—	**—**	**—**	**46**
Dividends declared per common share – $0.51 (note 14)	—	—	**—**	**(208)**	**—**	—	—	**—**	**—**	**(208)**
Dividends declared per preferred share – $0.66250 (note 14)	—	—	**—**	**(6)**	**—**	—	—	**—**	**—**	**(6)**
Net contribution from non-controlling interests	—	—	**—**	**—**	**—**	—	—	**—**	**2**	**2**
	$ (75)	$ —	**$ (75)**	**$ (267)**	**$ (13)**	$ 6	$ (2)	**$ 4**	**$ (12)**	**$ (363)**
Balance at June 18, 2016	$ 7,776	$ 221	**$ 7,997**	**$ 4,647**	**$ 89**	$ 28	$ (1)	**$ 27**	**$ 1**	**$ 12,761**

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

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

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)		As at June 17, 2017		As at June 18, 2016[i]		As at December 31, 2016
Assets						
Current Assets						
Cash and cash equivalents (note 7)	**$**	**1,276**	$	1,210	$	1,314
Short term investments (note 7)		**397**		24		241
Accounts receivable		**986**		1,056		1,122
Credit card receivables (note 8)		**2,908**		2,767		2,926
Inventories (note 9)		**4,221**		4,170		4,371
Prepaid expenses and other assets		**281**		256		190
Assets held for sale (note 10)		**119**		58		40
Total Current Assets	**$**	**10,188**	$	9,541	$	10,204
Fixed Assets		**10,425**		10,320		10,559
Investment Properties		**231**		214		218
Intangible Assets		**8,538**		8,957		8,745
Goodwill		**3,914**		3,788		3,895
Deferred Income Tax Assets		**134**		133		130
Franchise Loans Receivable (note 17)		**176**		300		233
Other Assets (note 11)		**420**		357		452
Total Assets	**$**	**34,026**	$	33,610	$	34,436
Liabilities						
Current Liabilities						
Bank indebtedness	**$**	**320**	$	269	$	115
Trade payables and other liabilities		**4,806**		4,798		5,091
Provisions		**101**		101		99
Income taxes payable		**134**		173		329
Short term debt (note 8)		**560**		475		665
Long term debt due within one year (note 12)		**581**		303		400
Associate interest		**229**		214		243
Liabilities held for sale (note 10)		**54**		—		—
Total Current Liabilities	**$**	**6,785**	$	6,333	$	6,942
Provisions		**115**		136		120
Long Term Debt (note 12)		**10,338**		10,419		10,470
Trust Unit Liability (note 17)		**1,006**		970		959
Deferred Income Tax Liabilities		**2,117**		2,199		2,190
Other Liabilities (note 13)		**757**		792		727
Total Liabilities	**$**	**21,118**	$	20,849	$	21,408
Equity						
Share Capital	**$**	**7,824**	$	7,997	$	7,913
Retained Earnings		**4,935**		4,647		4,944
Contributed Surplus (note 15)		**91**		89		112
Accumulated Other Comprehensive Income		**35**		27		33
Total Equity Attributable to Shareholders of the Company	**$**	**12,885**	$	12,760	$	13,002
Non-Controlling Interests		**23**		1		26
Total Equity	**$**	**12,908**	$	12,761	$	13,028
Total Liabilities and Equity	**$**	**34,026**	$	33,610	$	34,436

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

Contingent Liabilities (note 18).

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

Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars) (unaudited)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Operating Activities				
Net earnings	**$ 364**	$ 156	**$ 596**	$ 343
Add (Deduct):				
Income taxes (note 5)	**135**	125	**234**	217
Net interest expense and other financing charges (note 4)	**127**	236	**288**	393
Depreciation and amortization	**360**	346	**720**	714
Asset impairments, net of recoveries	**2**	4	**7**	6
Loss on disposal of assets	**—**	—	**—**	3
	$ 988	$ 867	**$ 1,845**	$ 1,676
Change in non-cash working capital	**250**	102	**(146)**	(35)
Change in credit card receivables (note 8)	**(219)**	(173)	**18**	23
Income taxes paid	**(153)**	(81)	**(490)**	(183)
Interest received	**3**	2	**6**	4
Other	**3**	16	**18**	61
Cash Flows from Operating Activities	**$ 872**	$ 733	**$ 1,251**	$ 1,546
Investing Activities				
Fixed asset purchases	**$ (177)**	$ (150)	**$ (279)**	$ (242)
Intangible asset additions	**(77)**	(64)	**(129)**	(129)
Cash assumed on initial consolidation of franchises (note 3)	**2**	3	**12**	18
Change in short term investments (note 7)	**(43)**	46	**(156)**	40
Proceeds from disposal of assets	**2**	17	**2**	33
Other	**(25)**	(8)	**(19)**	(10)
Cash Flows used in Investing Activities	**$ (318)**	$ (156)	**$ (569)**	$ (290)
Financing Activities				
Change in bank indebtedness	**$ 66**	$ (22)	**$ 205**	$ 126
Change in short term debt (note 8)	**95**	125	**(105)**	(75)
Long Term Debt (note 12)				
Issued	**(18)**	216	**267**	606
Retired	**(29)**	(607)	**(257)**	(949)
Interest paid	**(71)**	(87)	**(219)**	(231)
Dividends paid on common and preferred shares	**(107)**	(105)	**(110)**	(105)
Common Share Capital				
Issued (note 15)	**12**	7	**21**	34
Purchased and held in trust (note 14)	**—**	—	**(48)**	(90)
Purchased and cancelled (note 14)	**(260)**	(132)	**(452)**	(363)
Other	**(4)**	(1)	**(22)**	(8)
Cash Flows used in Financing Activities	**$ (316)**	$ (606)	**$ (720)**	$ (1,055)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$ —**	$ (4)	**$ —**	$ (9)
Change in cash and cash equivalents	**$ 238**	$ (33)	**$ (38)**	$ 192
Cash and cash equivalents, beginning of period	**1,038**	1,243	**1,314**	1,018
Cash and Cash Equivalents, End of Period	**$ 1,276**	$ 1,210	**$ 1,276**	$ 1,210

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

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's food and pharmacy leader, the nation's largest retailer and the majority unitholder of Choice Properties Real Estate Investment Trust ("Choice Properties"). Loblaw Companies Limited provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, credit card services, insurance brokerage services, personal banking services, gift cards and telecommunication services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. Loblaw Companies Limited and its subsidiaries are together referred to, in these unaudited interim period condensed consolidated financial statements, as the "Company" or "Loblaw".

The Company's controlling shareholder is George Weston Limited ("Weston") which owns approximately 47.5% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments, Limited. The remaining common shares are widely held.

The Company has three reportable operating segments: Retail, Financial Services and Choice Properties (see note 19). As at June 17, 2017, Loblaw held an effective interest in Choice Properties of approximately 82.5%.

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

Note 2. Significant Accounting Policies

The significant accounting policies and critical accounting estimates and judgments as disclosed in the Company's 2016 audited annual consolidated financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements. These unaudited interim period condensed consolidated financial statements are presented in Canadian dollars.

Statement of Compliance

These unaudited interim period condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). These unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company's 2016 audited annual consolidated financial statements and accompanying notes.

These unaudited interim period condensed consolidated financial statements were approved for issuance by the Company's Board of Directors ("Board") on July 25, 2017.

Accounting Standards Implemented in 2017

Statement of Cash Flows The Company implemented the amendments to IAS 7, "Statement of Cash Flows", in the first quarter of 2017 and has provided disclosures on changes in liabilities arising from certain financing activities, including both changes arising from cash and non-cash flows changes (see note 12). Comparative information has not been presented.

Changes in Accounting Standards

Income Taxes In November 2016, the IFRS Interpretations Committee issued its agenda decision related to the expected manner of recovery of indefinite life intangible assets when measuring deferred income taxes in accordance with IAS 12, "Income Taxes", and clarified its interpretation that an indefinite life intangible asset does not have an unlimited life and its economic benefit flows to an entity in future periods through use and not just through future sale. Accordingly, it is appropriate to measure the associated deferred income tax liability at the income tax rate applicable to ordinary taxable income expected to apply in the years in which the temporary differences are expected to be recovered or settled. The Company's accounting policy reflected an accepted view that an indefinite life intangible asset will be recovered through its disposition and was using a capital gains tax rate to measure deferred income taxes associated with its indefinite life intangible assets. The Company implemented this guidance in the fourth quarter of 2016 on a retrospective basis as an accounting policy change in accordance with IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors". The impact of this change was as follows:

Condensed Consolidated Balance Sheet

Increase (Decrease) (millions of Canadian dollars)	As at June 18, 2016
Goodwill	$ 418
Deferred Income Tax Liabilities	458
Retained Earnings	(40)

There was no impact to net earnings in 2016 as a result of this change.

Note 3. Business Acquisitions

Consolidation of Franchises The Company accounts for the consolidation of existing franchises as business acquisitions and consolidates its franchises as of the date the franchisee enters into a new, simplified franchise agreement with the Company. The assets acquired and liabilities assumed through the consolidation are valued at the acquisition date using fair values, which approximate the franchise carrying values at the date of acquisition. The results of operations of the acquired franchises are included in the Company's results of operations from the date of acquisition.

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

(millions of Canadian dollars)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Net Assets Acquired:				
Cash and cash equivalents	**$ 2**	$ 3	**$ 12**	$ 18
Inventories	**11**	7	**31**	28
Fixed assets	**11**	10	**33**	21
Trade payables and other liabilities(i)	**(4)**	(4)	**(18)**	(26)
Other liabilities(i)	**(18)**	(15)	**(53)**	(31)
Non-controlling interests	**(2)**	(1)	**(5)**	(10)
Total Net Assets Acquired	**$ —**	$ —	**$ —**	$ —

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

Note 4. Net Interest Expense and Other Financing Charges

The components of net interest and other financing charges were as follows:

(millions of Canadian dollars)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Interest expense and other financing charges:				
Long term debt	**$ 105**	$ 113	**$ 209**	$ 220
Borrowings related to credit card receivables	**7**	6	**15**	13
Trust Unit distributions	**13**	11	**26**	23
Post-employment and other long term employee benefits (note 16)	**2**	2	**4**	6
Independent funding trusts	**3**	4	**7**	7
Bank indebtedness	**2**	1	**3**	2
Capitalized interest	**—**	(1)	**(2)**	(2)
	$ 132	$ 136	**$ 262**	$ 269
Interest income:				
Accretion income	**$ (2)**	$ (4)	**$ (5)**	$ (7)
Short term interest income	**(2)**	(4)	**(4)**	(6)
Derivative financial instruments(i)	**—**	—	**—**	(3)
	$ (4)	$ (8)	**$ (9)**	$ (16)
Fair value adjustment to the Trust Unit Liability (note 17)	**$ (1)**	$ 108	**$ 35**	$ 140
Net interest expense and other financing charges	**$ 127**	$ 236	**$ 288**	$ 393

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

Note 5. Income Taxes

Income tax expense in the second quarter of 2017 was $135 million (2016 – $125 million) and the effective income tax rate was 27.1% (2016 – 44.5%). Year-to-date income tax expense was $234 million (2016 – $217 million) and the effective tax rate was 28.2% (2016 – 38.8%). The decrease in the effective tax rate compared to the second quarter of 2016 and year-to-date was primarily attributable to a decrease in the non-deductible fair value adjustment to the Trust Unit Liability and a decrease in certain other non-deductible items. The year-to-date effective income tax rate also included a decrease in deferred tax expense resulting from the impact of a prior year charge related to the re-measurement of deferred tax liabilities as a result of the increase in the New Brunswick statutory corporate income tax rate from 12% to 14% enacted in the first quarter of 2016.

Note 6. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Net earnings attributable to shareholders of the Company	**$ 361**	$ 161	**$ 594**	$ 357
Dividends on Preferred Shares in Equity (note 14)	**(3)**	(3)	**(6)**	(6)
Net earnings available to common shareholders	**$ 358**	$ 158	**$ 588**	$ 351
Weighted average common shares outstanding (in millions) (note 14)	**396.4**	406.1	**397.9**	407.6
Dilutive effect of equity-based compensation (in millions)	**3.4**	3.4	**2.9**	3.5
Dilutive effect of certain other liabilities (in millions)	**0.5**	0.4	**0.5**	0.4
Diluted weighted average common shares outstanding (in millions)	**400.3**	409.9	**401.3**	411.5
Basic net earnings per common share ($)	**$ 0.90**	$ 0.39	**$ 1.48**	$ 0.86
Diluted net earnings per common share ($)	**$ 0.89**	$ 0.39	**$ 1.47**	$ 0.85

In the second quarter of 2017, 1,390,338 (2016 – 1,297,181) and year-to-date 2,603,398 (2016 – 1,321,174) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

Note 7. Cash and Cash Equivalents and Short Term Investments

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

Cash and Cash Equivalents

(millions of Canadian dollars)	**As at June 17, 2017**	As at June 18, 2016	As at December 31, 2016
Cash	**$ 491**	$ 426	$ 553
Cash equivalents:			
Government treasury bills	**249**	187	199
Bankers' acceptances	**400**	308	386
Corporate commercial paper	**136**	196	176
Bank term deposits	**—**	93	—
Total cash and cash equivalents	**$ 1,276**	$ 1,210	$ 1,314

Short Term Investments

(millions of Canadian dollars)	**As at June 17, 2017**	As at June 18, 2016	As at December 31, 2016
Government treasury bills	**$ 74**	$ 15	$ 24
Bankers' acceptances	**175**	2	175
Corporate commercial paper	**145**	—	40
Other	**3**	7	2
Total short term investments	**$ 397**	$ 24	$ 241

Note 8. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	**As at June 17, 2017**	As at June 18, 2016	As at December 31, 2016
Gross credit card receivables	**$ 2,956**	$ 2,819	$ 2,978
Allowance for credit card receivables	**(48)**	(52)	(52)
Credit card receivables	**$ 2,908**	$ 2,767	$ 2,926
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust*®	**$ 650**	$ 650	$ 650
Securitized to Other Independent Securitization Trusts	**560**	475	665
Total securitized to independent securitization trusts	**$ 1,210**	$ 1,125	$ 1,315

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

The associated liability of *Eagle* is recorded in long term debt (see note 12).

The associated liabilities of credit card receivables securitized to the Other Independent Securitization Trusts are recorded in short term debt. As at June 17, 2017, the aggregate gross potential liability under letters of credit for the benefit of the Other Independent Securitization Trusts was $62 million (June 18, 2016 – $50 million; December 31, 2016 – $71 million), which represented 11% (June 18, 2016 – 10% and December 31, 2016 – 11%) of the securitized credit card receivables amount.

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 17, 2017 and throughout the first half of 2017.

Note 9. Inventories

For inventories recorded as at June 17, 2017, the Company recorded an inventory provision of $27 million (June 18, 2016 – $41 million; December 31, 2016 – $29 million) for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold. There were no reversals of previously recorded write-downs of inventories during the first half of 2017 and 2016.

Note 10. Assets Held for Sale

On July 17, 2017, the Company sold its gas bar operations, for proceeds of approximately $540 million, to Brookfield Business Partners L.P. ("Brookfield"). As a result of the transaction, Brookfield has become a strategic partner to the Company and will continue to offer the Company's *PC Plus* loyalty program at the gas bars. Consistent with the first quarter of 2017, the Company has classified $78 million of fixed assets and $10 million of inventory, related to the gas bar operations, as assets held for sale as at June 17, 2017. In addition, the Company has classified $54 million of related accounts payable and accrued liabilities that will be assumed by the purchaser as liabilities held for sale as at June 17, 2017. No impairment or other charges were recognized on the net assets of the gas bar operations.

Note 11. Other Assets

The components of other assets were as follows:

(millions of Canadian dollars)	**As at June 17, 2017**	As at June 18, 2016	As at December 31, 2016
Sundry investments and other receivables	**$ 70**	$ 118	$ 79
Accrued benefit plan asset	**162**	88	192
Interests in joint ventures	**7**	9	5
Other	**181**	142	176
Other assets	**$ 420**	$ 357	$ 452

Note 12. Long Term Debt

The components of long term debt were as follows:

(millions of Canadian dollars)	As at June 17, 2017	As at June 18, 2016	As at December 31, 2016
Debentures and Medium Term Notes	**$ 7,380**	$ 7,567	$ 7,573
Unsecured Term Loan Facilities	**298**	298	298
Long Term Debt Secured by Mortgage	**76**	81	78
Guaranteed Investment Certificates	**923**	833	928
Independent Securitization Trust (note 8)	**650**	650	650
Independent Funding Trusts	**555**	545	587
Finance Lease Obligations	**593**	631	607
Committed Credit Facilities	**464**	142	172
Transaction costs and other	**(20)**	(25)	(23)
Total Long Term Debt	**$ 10,919**	$ 10,722	$ 10,870
Long Term Debt due within one year	**581**	303	400
Long Term Debt	**$ 10,338**	$ 10,419	$ 10,470

The Company and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at June 17, 2017 and throughout the first half of 2017, the Company and Choice Properties were in compliance with their respective covenants.

Debentures and Medium Term Notes The following table summarizes the debentures and Medium Term Notes ("MTNs") issued in 2017 and 2016:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	June 17, 2017 (12 weeks) Principal Amount	June 18, 2016 (12 weeks) Principal Amount	June 17, 2017 (24 weeks) Principal Amount	June 18, 2016 (24 weeks) Principal Amount
Choice Properties senior unsecured debentures						
– Series G	3.20%	March 7, 2023	**$ —**	$ —	**$ —**	$ 250
– Series H	5.27%	March 7, 2046	**—**	—	**—**	100
Total Debentures and Medium Term Notes issued			**$ —**	$ —	**$ —**	$ 350

The following table summarizes the debentures and MTNs repaid in 2017 and 2016:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**June 17, 2017 (12 weeks)** **Principal Amount**	June 18, 2016 (12 weeks) Principal Amount	**June 17, 2017 (24 weeks)** **Principal Amount**	June 18, 2016 (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 6	3.00%	April 20, 2017(i)	**—**	—	**200**	—
Choice Properties senior unsecured debentures – Series 5	3.00%	April 20, 2016(ii)	**—**	—	**—**	300
Total Debentures and Medium Term Notes repaid			**$ —**	$ 525	**$ 200**	$ 825

(i) Choice Properties Series 6 unsecured debentures were redeemed on January 23, 2017.
(ii) Choice Properties Series 5 unsecured debentures were redeemed on March 7, 2016.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, during 2017 and 2016:

(millions of Canadian dollars)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Balance, beginning of period	**$ 923**	$ 798	**$ 928**	$ 809
GICs issued	**6**	95	**7**	101
GICs matured	**(6)**	(60)	**(12)**	(77)
Balance, end of period	**$ 923**	$ 833	**$ 923**	$ 833

Independent Securitization Trust The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables (see note 8). As at June 17, 2017, the aggregate gross potential liability under letters of credit for the benefit of *Eagle* was $36 million (June 18, 2016 and December 31, 2016 – $36 million, respectively), which represented 9% (June 18, 2016 and December 31, 2016 – 9%, respectively) of the outstanding *Eagle* notes issued prior to 2015.

Independent Funding Trusts The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts in the amount of $64 million (June 18, 2016 – $58 million; December 31, 2016 – $64 million), representing not less than 10% (June 18, 2016 and December 31, 2016 – not less than 10%, respectively) of the principal amount of loans outstanding.

Committed Credit Facilities The components of the committed lines of credit as of June 17, 2017, June 18, 2016 and December 31, 2016 were as follows:

		As at June 17, 2017		As at June 18, 2016		As at December 31, 2016	
(millions of Canadian dollars)	Maturity Date	**Available Credit**	**Drawn**	Available Credit	Drawn	Available Credit	Drawn
Loblaw's Committed Credit Facility	June 10, 2021	**$ 1,000**	**$ —**	$ 1,000	$ —	$ 1,000	$ —
Choice Properties Committed Syndicated Credit Facility	July 5, 2021	**500**	**214**	500	142	500	172
Choice Properties Committed Bi-lateral Credit Facility	December 21, 2018	**250**	**250**	—	—	250	—
Total Committed Lines of Credit		**$ 1,750**	**$ 464**	$ 1,500	$ 142	$ 1,750	$ 172

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

(millions of Canadian dollars)	**As at June 17, 2017**	As at June 18, 2016	As at December 31, 2016
Debentures and MTNs	**$ 275**	$ —	$ —
Choice Properties Notes	**—**	200	200
Long Term Debt Secured by Mortgage	**75**	6	5
GICs	**182**	44	142
Finance Lease Obligations	**49**	53	53
Long term debt due within one year	**$ 581**	$ 303	$ 400

Reconciliation of Long term debt The following table reconciles the changes in cash flows from financing activities for long term debt for the first half of 2017:

(millions of Canadian dollars)		**June 17, 2017**
	(12 weeks)	**(24 weeks)**
Total Long Term Debt, beginning of period	**$ 10,941**	**$ 10,870**
Long Term Debt issuances[(i)]	**$ (18)**	**$ 267**
Long Term Debt repayments[(ii)]	**(29)**	**(257)**
Total cash flow from Long Term Debt Financing Activities	**$ (47)**	**$ 10**
Finance Lease additions	**$ 5**	**$ 12**
Other non-cash changes	**20**	**27**
Total non-cash Long Term Debt activity	**$ 25**	**$ 39**
Total Long Term Debt, end of period	**$ 10,919**	**$ 10,919**

(i) Includes net issuances from Choice Properties' credit facilities and the Independent Funding Trust, which are revolving debt instruments.

(ii) Includes repayments on Finance Lease Obligations of $23 million in the second quarter of 2017 and $44 million year-to-date.

Note 13. Other Liabilities

The components of other liabilities were as follows:

(millions of Canadian dollars)	**As at June 17, 2017**	As at June 18, 2016	As at December 31, 2016
Net defined benefit plan obligation	**$ 367**	$ 368	$ 327
Other long term employee benefit obligation	**105**	113	108
Deferred lease obligation	**131**	106	119
Fair value of acquired leases	**72**	84	77
Equity-based compensation liability (note 15)	**4**	9	4
Other	**78**	112	92
Other liabilities	**$ 757**	$ 792	$ 727

Note 14. 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)	**June 17, 2017 (12 weeks)** Number of Common Shares	Common Share Capital	June 18, 2016 (12 weeks) Number of Common Shares	Common Share Capital	**June 17, 2017 (24 weeks)** Number of Common Shares	Common Share Capital	June 18, 2016 (24 weeks) Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**398,351,252**	**$ 7,671**	407,324,440	$ 7,828	**400,829,870**	**$ 7,713**	409,985,226	$ 7,861
Issued for settlement of stock options	**277,055**	**14**	183,394	8	**501,930**	**24**	914,608	40
Purchased and cancelled	**(3,379,400)**	**(66)**	(1,970,000)	(38)	**(6,082,893)**	**(118)**	(5,362,000)	(103)
Issued and outstanding, end of period	**395,248,907**	**$ 7,619**	405,537,834	$ 7,798	**395,248,907**	**$ 7,619**	405,537,834	$ 7,798
Shares held in trust, beginning of period	**(1,785,131)**	**$ (34)**	(1,187,318)	$ (22)	**(1,105,620)**	**$ (21)**	(643,452)	$ (10)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	—	—	**(686,000)**	**(13)**	(1,250,000)	(24)
Released for settlement of RSUs and PSUs (note 15)	**926,325**	**18**	27,453	—	**932,814**	**18**	733,587	12
Shares held in trust, end of period	**(858,806)**	**$ (16)**	(1,159,865)	$ (22)	**(858,806)**	**$ (16)**	(1,159,865)	$ (22)
Issued and outstanding, net of shares held in trust, end of period	**394,390,101**	**$ 7,603**	404,377,969	$ 7,776	**394,390,101**	**$ 7,603**	404,377,969	$ 7,776
Weighted average outstanding, net of shares held in trust	**396,370,522**		406,094,151		**397,912,758**		407,553,460	

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 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**3,379,400**	1,970,000	**6,082,893**	5,362,000
Cash consideration paid	**$ 260**	$ 132	**$ 452**	$ 363
Premium charged to Retained Earnings	**194**	94	**334**	260
Reduction in Common Share Capital	**66**	38	**118**	103
Common shares repurchased under the NCIB and held in trust (number of shares)	**—**	—	**686,000**	1,250,000
Cash consideration paid	**$ —**	$ —	**$ 48**	$ 90
Premium charged to Retained Earnings	**—**	—	**35**	66
Reduction in Common Share Capital	**—**	—	**13**	24

In the second quarter of 2017, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 21,016,472 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 following table summarizes the Company's cash dividends declared for the periods as indicated:

	June 17, 2017[i] (12 weeks)	June 18, 2016 (12 weeks)	June 17, 2017 (24 weeks)	June 18, 2016 (24 weeks)
Dividends declared per share ($):				
Common Share	$ 0.27	$ 0.26	$ 0.53	$ 0.51
Second Preferred Share, Series B	$ 0.33125	$ 0.33125	$ 0.66250	$ 0.66250

(i) The second quarter dividends for 2017 of $0.27 per share declared on common shares had a payment date of July 1, 2017. The second quarter dividends for 2017 of $0.33125 per share declared on Second Preferred Shares, Series B had a payment date of June 30, 2017.

(millions of Canadian dollars)	June 17, 2017 (12 weeks)	June 18, 2016 (12 weeks)	June 17, 2017 (24 weeks)	June 18, 2016 (24 weeks)
Dividends declared:				
Common Share	$ 106	$ 106	$ 210	$ 208
Second Preferred Share, Series B	3	3	6	6
Total dividends declared	$ 109	$ 109	$ 216	$ 214

Subsequent to the end of the second quarter of 2017, the Board declared a quarterly dividend of $0.27 per common share, payable on October 1, 2017 to shareholders of record on September 15, 2017 and a dividend on the Second Preferred Shares, Series B of $0.33125 per share payable on September 30, 2017 to shareholders of record on September 15, 2017.

Note 15. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Loblaw Stock Option, Restricted Share Unit ("RSU"), Performance Share Unit ("PSU"), Director Deferred Share Unit, Executive Deferred Share Unit plans, and the unit-based compensation plans of Choice Properties, was $14 million for the second quarter of 2017 (2016 – $17 million) and $30 million year-to-date (2016 – $33 million). The expense was recognized in operating income.

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

(millions of Canadian dollars)	As at June 17, 2017	As at June 18, 2016	As at December 31, 2016
Trade payables and other liabilities	$ 11	$ 7	$ 10
Other liabilities (note 13)	4	9	4
Contributed surplus	91	89	112

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

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

(Number of Options)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Outstanding options, beginning of period	**8,535,854**	7,886,475	**7,322,358**	7,411,405
Granted	**8,325**	3,764	**1,453,657**	1,274,683
Exercised	**(277,055)**	(183,394)	**(501,930)**	(914,608)
Forfeited/cancelled	**(135,198)**	(44,599)	**(142,159)**	(109,234)
Outstanding options, end of period	**8,131,926**	7,662,246	**8,131,926**	7,662,246

During the second quarter of 2017, the Company granted stock options with a weighted average exercise price of $77.81 (2016 – $69.68) and $70.19 year-to-date (2016 – $68.94). In addition, the Company issued common shares on the exercise of stock options with a weighted average share price during the second quarter of 2017 of $76.27 (2016 – $72.32) and $73.75 year-to-date (2016 – $70.06) and received cash consideration of $12 million (2016 – $7 million) and $21 million year-to-date (2016 – $34 million).

The fair value of stock options granted during the second quarter of 2017 was nominal (2016 – nominal) and $14 million year-to-date (2016 – $13 million). The assumptions used to measure the fair value of options granted during 2017 and 2016 under the Black-Scholes valuation model at date of grant were as follows:

	June 17, 2017 (12 weeks)	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Expected dividend yield	**1.4%**	1.5%	**1.4%**	1.5%
Expected share price volatility	**16.2% – 18.1%**	18.5% – 19.0%	**16.2% – 18.2%**	18.5% – 19.0%
Risk-free interest rate	**0.9% – 1.2%**	0.6% – 0.9%	**0.9% – 1.3%**	0.6% – 0.9%
Expected life of options	**3.8 – 6.3 years**	3.9 – 6.3 years	**3.8 – 6.3 years**	3.9 – 6.3 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at June 17, 2017 was 10.0% (June 18, 2016 – 10.0%).

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

(Number of Awards)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
RSUs, beginning of period	**1,095,989**	880,859	**858,106**	887,792
Granted	**18,676**	13,902	**265,851**	248,378
Reinvested	**886**	—	**886**	—
Settled	**(266,540)**	(22,336)	**(270,374)**	(260,768)
Forfeited	**(19,937)**	(2,536)	**(25,395)**	(5,513)
RSUs, end of period	**829,074**	869,889	**829,074**	869,889

The fair value of RSUs granted during the second quarter of 2017 was $2 million (2016 – $1 million) and $19 million year-to-date (2016 – $17 million).

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

(Number of Awards)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
PSUs, beginning of period	**1,165,871**	1,001,661	**965,863**	1,100,356
Granted	**181,230**	1,095	**387,734**	371,357
Reinvested	**739**	—	**739**	—
Settled	**(659,785)**	(5,117)	**(662,440)**	(473,319)
Forfeited	**(31,668)**	(3,366)	**(35,509)**	(4,121)
PSUs, end of period	**656,387**	994,273	**656,387**	994,273

The fair value of PSUs granted during the second quarter of 2017 was nominal (2016 – nominal) and $14 million year-to-date (2016 – $14 million).

Settlement of Awards from Shares Held in Trust The Company settled RSUs and PSUs totaling 926,325 during the second quarter of 2017 (2016 – 27,453) and 932,814 year-to-date (2016 – 734,087), all of which (2016 – 27,453; 2016 – 733,587 year-to date) were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 14).

The settlements in the second quarter of 2017 and year-to-date resulted in a net increase of $25 million to retained earnings (2016 – $1 million and $17 million, respectively) and an $18 million increase to common share capital (2016 – nominal and $12 million, respectively).

Note 16. Post-Employment and Other Long Term Employee Benefits

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

(millions of Canadian dollars)	**June 17, 2017 (12 weeks)**	June 18, 2016 (12 weeks)	**June 17, 2017 (24 weeks)**	June 18, 2016 (24 weeks)
Post-employment benefit costs recognized in operating income	**$ 32**	$ 36	**$ 78**	$ 79
Other long term employee benefits costs recognized in operating income	**3**	5	**7**	10
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 4)	**2**	2	**4**	6
Actuarial losses before income taxes recognized in other comprehensive income	**(27)**	(26)	**(59)**	(138)

The actuarial losses recognized in the second quarter of 2017 and year-to-date were primarily driven by declines in discount rates, partially offset by higher than expected returns on assets. The actuarial losses recognized in the second quarter of 2016 and year-to-date were primarily driven by declines in discount rates, partially offset by higher than expected returns on assets.

In the first quarter of 2017, the Company completed an annuity purchase and paid $110 million from the impacted plans' assets to settle $103 million of pension obligations and recorded settlement charges of $7 million in selling, general and administrative expenses.

Note 17. Financial Instruments

The following table presents the fair value hierarchy of financial assets and financial liabilities, excluding those classified as amortized cost that are short term in nature. The carrying values of the Company's financial instruments approximate their fair values except for long term debt.

				As at June 17, 2017				As at June 18, 2016				As at December 31, 2016
(millions of Canadian dollars)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:												
Cash and cash equivalents	$ 740	$ 536	$ —	$ 1,276	$ 613	$ 597	$ —	$ 1,210	$ 752	$ 562	$ —	$ 1,314
Short term investments	74	323	—	397	15	9	—	24	24	217	—	241
Franchise loans receivable	—	—	176	176	—	—	300	300	—	—	233	233
Certain other assets[(i)]	22	—	30	52	24	2	51	77	23	2	42	67
Derivatives included in prepaid expenses and other assets	2	8	3	13	—	—	4	4	7	11	—	18
Financial liabilities:												
Long term debt	—	12,002	—	12,002	—	11,971	—	11,971	—	11,864	—	11,864
Trust unit liability	1,006	—	—	1,006	970	—	—	970	959	—	—	959
Certain other liabilities[(i)]	—	—	20	20	—	—	21	21	—	—	22	22
Derivatives included in trade payables and other liabilities	—	—	—	—	1	5	—	6	—	—	2	2

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

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

During the second quarter of 2017, the Company recognized a nominal gain (2016 – loss of $4 million) and a nominal gain (2016 – loss of $9 million) year-to-date in operating income on financial instruments designated as fair value through profit or loss. In addition, during the second quarter of 2017, a gain of $4 million (2016 – net loss of $116 million) and a net loss of $38 million (2016 – net loss of $148 million) year-to-date was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Franchise Loans Receivable and Franchise Investments The value of Loblaw franchise loans receivable of $176 million (June 18, 2016 – $300 million; December 31, 2016 – $233 million) was recorded in the condensed consolidated balance sheet. In the second quarter of 2017 and year-to-date, the Company did not record any gain or loss (2016 – nominal loss) in operating income related to these loans receivable.

The value of Loblaw franchise investments of $27 million (June 18, 2016 – $49 million; December 31, 2016 – $39 million) was recorded in other assets. During the second quarter of 2017, the Company recorded a loss of $1 million (2016 – gain of $3 million) and a loss of $2 million year-to-date (2016 – gain of $3 million) in operating income related to these investments.

Embedded Derivatives The Company's level 3 financial instruments classified as fair value through profit or loss consist of embedded derivatives on purchase orders placed in neither Canadian dollars, nor the functional currency of the vendor. These derivatives are valued using a market approach based on the differential in exchange rates and timing of settlement. The significant unobservable input used in the fair value measurement is the cost of purchase orders. Significant increases (decreases) in any one of the inputs could result in a significantly higher (lower) fair value measurement.

During the second quarter of 2017, a $4 million gain (2016 – nominal loss) and a gain of $5 million year-to-date (2016 – $11 million) was recorded in operating income related to these derivatives. In addition, a corresponding asset of $3 million was included in prepaid expenses and other assets as at June 17, 2017 (June 18, 2016 – $4 million asset in prepaid expenses and other assets; December 31, 2016 – $2 million liability in trade payables and other liabilities). As at June 17, 2017, a 1% increase (decrease) in foreign currency exchange rates would result in a $2 million gain (loss) in fair value.

Trust Unit Liability During the second quarter of 2017, the Company recorded a fair value gain of $1 million (2016 – loss of $108 million) and a loss of $35 million year-to-date (2016 – loss of $140 million) in net interest expense and other financing charges related to Choice Properties' Trust Units ("Units") (note 4).

As at June 17, 2017, 71,897,086 Units were held by unitholders other than the Company (June 18, 2016 – 70,250,491; December 31, 2016 – 71,068,828). During the second quarter of 2017, Choice Properties issued 427,918 units (2016 – 401,131) and 828,258 units year-to-date (2016 – 796,674), to eligible unitholders under its distribution reinvestment plan at an average price of $13.57 (2016 – $12.87) and $13.51 year-to-date (2016 – $12.51).

Securities Investments As at June 17, 2017, the fair value of available for sale investments of $22 million (June 18, 2016 – $24 million; December 31, 2016 – $23 million) was included in other assets. During the second quarter of 2017 and year-to-date, PC Bank recorded a nominal unrealized fair value loss (2016 – nominal loss) in other comprehensive income related to these investments. These investments are considered part of the liquid securities required to be held by PC Bank to meet its Liquidity Coverage Ratio ("LCR") standard.

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

					June 17, 2017
			(12 weeks)		(24 weeks)
(millions of Canadian dollars)	Net Asset/ (Liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges(i)					
Foreign Exchange Forwards	**$ —**	**$ (1)**	**$ 1**	**$ (1)**	**$ 1**
Bond Forwards	**3**	**2**	**—**	**2**	**—**
Total derivatives designated as cash flow hedges	**$ 3**	**$ 1**	**$ 1**	**$ 1**	**$ 1**
Derivatives not designated in a formal hedging relationship					
Foreign Exchange and Other Forwards	**$ 5**	**$ —**	**$ (2)**	**$ —**	**$ (4)**
Other Non-Financial Derivatives	**2**	**—**	**1**	**—**	**(4)**
Total derivatives not designated in a formal hedging relationship	**$ 7**	**$ —**	**$ (1)**	**$ —**	**$ (8)**
Total derivatives	**$ 10**	**$ 1**	**$ —**	**$ 1**	**$ (7)**

(i) Includes interest rate swap agreements with a notional value of $200 million. During the first quarter of 2017, a nominal unrealized fair value loss was recorded in OCI relating to these agreements.

					June 18, 2016
			(12 weeks)		(24 weeks)
(millions of Canadian dollars)	Net Asset/ (Liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges(i)					
Foreign Exchange Forwards	$ —	$ (1)	$ 1	$ (4)	$ 2
Total derivatives designated as cash flow hedges	$ —	$ (1)	$ 1	$ (4)	$ 2
Derivatives not designated in a formal hedging relationship					
Foreign Exchange and Other Forwards	$ (5)	$ —	$ (13)	$ —	$ (25)
Bond Forwards(ii)	—	—	—	—	3
Other Non-Financial Derivatives	(1)	—	4	—	3
Total derivatives not designated in a formal hedging relationship	$ (6)	$ —	$ (9)	$ —	$ (19)
Total derivatives	$ (6)	$ (1)	$ (8)	$ (4)	$ (17)

(i) Includes bond forward agreements with a notional value of $95 million, which were settled within 2016, and interest rate swap agreements with a notional value of $200 million. During the second quarter of 2016, a nominal unrealized fair value gain was recorded in OCI relating to these agreements.

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

Note 18. Contingent Liabilities

In the ordinary course of business, the Company is involved in and potentially subject to, legal actions and proceedings. In addition, the Company is subject to tax audits from various tax authorities on an ongoing basis. As a result, from time to time, tax authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments.

It is not currently possible to predict the outcome of the Company's legal actions and proceedings with certainty. However, based on current knowledge and in consultation with legal counsel, management considers the Company's exposure to such claims and litigation, tax assessments and reassessments (to the extent not covered by the Company's insurance policies or otherwise provided for), not to be material to the unaudited interim period condensed consolidated financial statements.

There are a number of uncertainties involved in such matters, individually or in aggregate, and as such, there is a possibility that the ultimate resolution of these matters may result in a material adverse effect on the Company's reputation, operations or financial condition or performance in future periods. The Company does not currently have any significant accruals or provisions for its litigation matters. Management regularly assesses its position on the adequacy of such accruals or provisions and will make any necessary adjustments.

The following is a description of the Company's significant legal proceedings, which the Company believes are without merit and is vigorously defending:

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice against the Company and certain subsidiaries, Weston and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim seeks approximately $2 billion in damages.

Shoppers Drug Mart Corporation ("Shoppers Drug Mart") has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice by two Shoppers Drug Mart licensees ("Associates"), claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement, in the amount of $500 million. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who are parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Ontario Superior Court of Justice certified as a class proceeding portions of the action. The Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class.

The Company has been reassessed by the Canada Revenue Agency ("CRA") and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited, a wholly owned Barbadian subsidiary, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2017, are for the 2000 to 2012 taxation years and total $370 million including interest and penalties as at the time of reassessment. The Company believes it is likely that the CRA will issue reassessments for the 2013 taxation year on the same or similar basis. The Company has filed a Notice of Appeal with the Tax Court of Canada for the 2000 to 2010 taxation years and a Notice of Objection for 2011 and will be filing a Notice of Objection for the 2012 taxation year.

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

Note 19. Segment Information

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and includes in-store pharmacies and other health and beauty products, gas bars and apparel and other general merchandise. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base;
- The Financial Services segment provides credit card services, loyalty programs, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services; and
- The Choice Properties segment owns, manages and develops retail and commercial properties across Canada. The Choice Properties segment information presented below reflects the accounting policies of Choice Properties, which may differ from those of the consolidated Company. Differences in policies are eliminated in Consolidation and Eliminations.

The Company's chief operating decision maker evaluates segment performance on the basis of adjusted EBITDA(2) and adjusted operating income(2), as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

	June 17, 2017 (12 weeks)					June 18, 2016 (12 weeks)				
(millions of Canadian dollars)	**Retail**	**Financial Services(3)**	**Choice Properties(3)**	**Consolidation & Eliminations(i)**	**Total**	Retail	Financial Services(3)	Choice Properties(3)	Consolidation & Eliminations(i)	Total
Revenue(ii)	**$ 10,827**	**$ 225**	**$ 209**	**$ (182)**	**$ 11,079**	$ 10,494	$ 214	$ 198	$ (175)	$ 10,731
Operating Income	$ 578	$ 39	$ 140	$ (131)	$ 626	$ 475	$ 41	$ 111	$ (110)	$ 517
Net interest expense and other financing charges	73	13	98	(57)	127	79	12	671	(526)	236
Earnings before Income Taxes	**$ 505**	**$ 26**	**$ 42**	**$ (74)**	**$ 499**	$ 396	$ 29	$ (560)	$ 416	$ 281
Operating Income	**$ 578**	**$ 39**	**$ 140**	**$ (131)**	**$ 626**	$ 475	$ 41	$ 111	$ (110)	$ 517
Depreciation and Amortization	353	2	—	5	360	339	3	—	4	346
Adjusting items(iii)	120	—	—	—	120	184	—	—	—	184
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(121)	—	—	—	(121)	(123)	—	—	—	(123)
Adjusted EBITDA(iii)	$ 930	$ 41	$ 140	$ (126)	$ 985	$ 875	$ 44	$ 111	$ (106)	$ 924
Depreciation and Amortization(iv)	232	2	—	5	239	216	3	—	4	223
Adjusted Operating Income	**$ 698**	**$ 39**	**$ 140**	**$ (131)**	**$ 746**	$ 659	$ 41	$ 111	$ (110)	$ 701

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $133 million (2016 – $129 million) of rental revenue and $49 million (2016 – $46 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Adjusted operating income includes the elimination of the $133 million (2016 – $129 million) impact of rental revenue described above; the elimination of a $8 million loss (2016 – $23 million loss) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets, Assets Held For Sale or Investment Properties by the Company and measured at cost, the recognition of $5 million (2016 – $4 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of $1 million in 2017.
- Net interest expense and other financing charges includes the elimination of $69 million (2016 – $65 million) of interest expense included in Choice Properties related to debt owing to the Company and a fair value loss of $580 million in 2016 recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of $13 million (2016 – $11 million), which excludes distributions paid to the Company and a $1 million fair value gain (2016 – loss of $108 million) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $95 million (2016 – $93 million) of interest income.

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

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $121 million (2016 – $123 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

	June 17, 2017 (24 weeks)					June 18, 2016 (24 weeks)				
(millions of Canadian dollars)	**Retail**	**Financial Services(3)**	**Choice Properties(3)**	**Consolidation & Eliminations(i)**	**Total**	Retail	Financial Services(3)	Choice Properties(3)	Consolidation & Eliminations(i)	Total
Revenue(ii)	**$ 20,993**	**$ 435**	**$ 412**	**$ (360)**	**$ 21,480**	$ 20,648	$ 421	$ 390	$ (347)	$ 21,112
Operating Income	$ 1,024	$ 78	$ 377	$ (361)	$ 1,118	$ 868	$ 82	$ 247	$ (244)	$ 953
Net interest expense and other financing charges	145	27	311	(195)	288	157	25	939	(728)	393
Earnings before Income Taxes	**$ 879**	**$ 51**	**$ 66**	**$ (166)**	**$ 830**	$ 711	$ 57	$ (692)	$ 484	$ 560
Operating Income	**$ 1,024**	**$ 78**	**$ 377**	**$ (361)**	**$ 1,118**	$ 868	$ 82	$ 247	$ (244)	$ 953
Depreciation and Amortization	705	5	—	10	720	701	6	—	7	714
Adjusting items(iii)	254	—	—	—	254	333	—	—	—	333
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(242)	—	—	—	(242)	(247)	—	—	—	(247)
Adjusted EBITDA(iii)	$ 1,741	$ 83	$ 377	$ (351)	$ 1,850	$ 1,655	$ 88	$ 247	$ (237)	$ 1,753
Depreciation and Amortization(iv)	463	5	—	10	478	454	6	—	7	467
Adjusted Operating Income	**$ 1,278**	**$ 78**	**$ 377**	**$ (361)**	**$ 1,372**	$ 1,201	$ 82	$ 247	$ (244)	$ 1,286

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $266 million (2016 – $257 million) of rental revenue and $94 million (2016 – $90 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Adjusted operating income includes the elimination of the $266 million (2016 – $257 million) impact of rental revenue described above; the elimination of a $85 million gain (2016 – $37 million loss) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets, Assets Held For Sale or Investment Properties by the Company and measured at cost, the elimination of a $1 million loss (2016 – $14 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties in the joint venture; the recognition of $10 million (2016 – $7 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of $1 million (2016 – $3 million).
- Net interest expense and other financing charges includes the elimination of $138 million (2016 – $130 million) of interest expense included in Choice Properties related to debt owing to the Company and a $118 million fair value loss (2016 – loss of $761 million) recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of $26 million (2016 – $23 million), which excludes distributions paid to the Company and a $35 million fair value loss (2016 – loss of $140 million) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $192 million (2016 – $189 million) of interest income.

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

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $242 million (2016 – $247 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	As at June 17, 2017	As at June 18, 2016[i]	As at December 31, 2016
Total Assets			
Retail	**$ 29,577**	$ 29,584	$ 30,055
Financial Services	**3,477**	3,267	3,531
Choice Properties	**9,504**	8,950	9,435
Consolidation and Eliminations[ii]	**(8,532)**	(8,191)	(8,585)
Total	**$ 34,026**	$ 33,610	$ 34,436

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

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

(millions of Canadian dollars)	June 17, 2017 (12 weeks)	June 18, 2016 (12 weeks)	June 17, 2017 (24 weeks)	June 18, 2016 (24 weeks)
Additions to Fixed Assets and Intangible Assets				
Retail	**$ 210**	$ 173	**$ 332**	$ 306
Financial Services[3]	**8**	1	**10**	5
Choice Properties[3]	**36**	157	**66**	177
Consolidation and Eliminations[i]	**—**	(117)	**—**	(117)
Total	**$ 254**	$ 214	**$ 408**	$ 371

(i) Consolidation and Eliminations includes the elimination of certain investment properties held by Choice Properties from the Retail segment.

Financial Summary[1]

As at or for the periods ended June 17, 2017 and June 18, 2016 (millions of Canadian dollars except where otherwise indicated)	2017 (12 weeks)	2016[4] (12 weeks)
Consolidated Results of Operations		
Revenue	**$ 11,079**	$ 10,731
Revenue growth	**3.2%**	1.9%
Operating Income	**$ 626**	$ 517
Adjusted EBITDA[2]	**985**	924
Adjusted EBITDA margin[2]	**8.9%**	8.6%
Net interest expense and other financing charges	**$ 127**	$ 236
Adjusted net interest expense and other financing charges[2]	**128**	128
Net earnings	**364**	156
Net earnings attributable to shareholders of the Company	**361**	161
Net earnings available to common shareholders of the Company	**358**	158
Adjusted net earnings available to common shareholders of the Company[2]	**445**	412
Consolidated Per Common Share ($)		
Diluted net earnings	**$ 0.89**	$ 0.39
Adjusted diluted net earnings[2]	**$ 1.11**	$ 1.01
Consolidated Financial Position and Cash Flows		
Cash and cash equivalents and short term investments	**$ 1,673**	$ 1,234
Cash flows from operating activities	**872**	733
Capital investments	**254**	214
Free cash flow[2]	**547**	432
Financial Measures		
Retail debt to rolling year retail adjusted EBITDA[2]	**1.7x**	1.8x
Rolling year adjusted return on equity[2]	**13.6%**	12.0%
Rolling year adjusted return on capital[2]	**9.3%**	8.1%
Retail Results of Operations		
Sales	**$ 10,827**	$ 10,494
Operating Income	**578**	475
Adjusted gross profit[2]	**3,007**	2,826
Adjusted EBITDA[2]	**930**	875
Adjusted EBITDA margin[2]	**8.6%**	8.3%
Depreciation and amortization	**$ 353**	$ 339
Retail Operating Statistics		
Food retail same-store sales growth	**1.2%**	0.4%
Drug retail same-store sales growth	**3.7%**	4.0%
Total retail square footage (in millions)	**70.1**	69.6
Number of corporate stores	**565**	569
Number of franchise stores	**530**	525
Number of Associate-owned drug stores	**1,330**	1,317
Financial Services Results of Operations[3]		
Revenue	**$ 225**	$ 214
Earnings before income taxes	**26**	29
Financial Services Operating Measures and Statistics[3]		
Average quarterly net credit card receivables	**$ 2,841**	$ 2,717
Credit card receivables	**2,908**	2,767
Allowance for credit card receivables	**48**	52
Annualized yield on average quarterly gross credit card receivables	**13.3%**	13.6%
Annualized credit loss rate on average quarterly gross credit card receivables	**4.0%**	4.5%
Choice Properties Results of Operations[3]		
Revenue	**$ 209**	$ 198
Net interest expense and other financing charges	**98**	671
Net Income (loss)	**42**	(560)
Funds from operations[2]	**108**	102

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 127 of the Company's 2016 Annual Report.

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

(3) For segment presentation purposes, the results are for the periods ended June 30, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to the Company's fiscal calendar are included in Consolidation and Eliminations. See Section 12 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis and Note 19 "Segment Information".

(4) Certain figures have been restated as a result of the IFRS Interpretations Committee's agenda decision on IAS 12, "Income Taxes". See Note 2 "Significant Accounting Policies" in the Company's 2017 unaudited interim period condensed consolidated financial statements.

Corporate Profile

The Company is Canada's food and pharmacy leader, the nation's largest retailer, and the majority unitholder of Choice Properties Real Estate Investment Trust. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, credit card services, insurance brokerage services, personal banking services, gift cards and telecommunication services. With more than 2,400 corporate, franchised and Associate-owned locations, Loblaw, its franchisees, and Associate-owners employ approximately 195,000 full and part-time employees, making it one of Canada's largest private sector employers.

Loblaw's purpose – *Live Life Well* – puts first the needs and well-being of Canadians who make one billion transactions annually in the Company's stores. Loblaw is positioned to meet and exceed those needs in many ways: convenient locations; more than 1,000 grocery stores that span the value spectrum from discount to specialty; full-service pharmacies at more than 1,300 Shoppers Drug Mart and Pharmaprix locations and more than 500 Loblaw banner store locations; *PC Financial* no-fee banking; affordable *Joe Fresh* fashion and family apparel; and three of Canada's top consumer brands – *President's Choice*®, *noname*® and *Life Brand*®. Through the *PC Plus*™ and *Shoppers Optimum*® loyalty programs, more than one in every three Canadians are rewarded for shopping with the Company.

Trademarks

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

Shareholder Information

Registrar and Transfer Agent

Computershare Investor Services Inc.	Toll free: 1-800-564-6253
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Toronto, Canada	Fax: (416) 263-9394
M5J 2Y1	Toll free fax: 1-888-453-0330
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To change your address or eliminate multiple mailings or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Investor Relations

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

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on July 26, 2017 at 10:00 a.m. (ET).

To access via tele-conference, please dial (647) 427-7450 or (888) 231-8191. The playback will be made available approximately three hours after the event at (416) 849-0833 or (855) 859-2056, access code: 41420556. To access via audio webcast, please go to the "Investors" section of loblaw.ca. Pre-registration will be available.

Full details about the conference call and webcast are available on the Loblaw Companies Limited website at loblaw.ca.

Ce rapport est disponible en français.

Loblaw Companies Limited

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