



*Building Out From the Core*

**Loblaw**  
COMPANIES LIMITED

Second Quarter Report to Shareholders  
24 weeks ending June 18, 2011

**Q2**

## LOBLAW COMPANIES LIMITED REPORTS SECOND QUARTER 2011 RESULTS

### 2011 Second Quarter Summary<sup>(1)</sup>

- Basic net earnings per common share of \$0.70, up 7.7%
- EBITDA margin<sup>(2)</sup> of 6.9% compared to 6.7% in the second quarter of 2010
- Revenue of \$7,278 million, an increase of 0.1% over the second quarter of 2010
- Retail sales growth of 0.2% and a same-store sales decline of 0.4% from the second quarter of 2010

“As we progressed through the second quarter, the Company continued to focus on building out our infrastructure and developing opportunities for growth,” said Galen G. Weston, Executive Chairman, Loblaw Companies Limited. “Unpredictable and competitively intense market conditions continue to put retail sales at risk. Investment in information technology and supply chain infrastructure will continue to negatively impact our operating income for the remainder of 2011.”

As part of the Company’s planned succession process, Vicente Trius, the Company’s newly appointed President, will join Loblaw Companies Limited on August 2, 2011.

Due to the transition to International Financial Reporting Standards (“IFRS” or “GAAP”) effective January 2, 2011, all comparative figures for 2010 that were previously reported in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (“CGAAP”) have been restated to conform with IFRS. Further information on the transition to IFRS and its impact on the Company’s financial position, financial performance and cash flows is included in note 16 to Loblaw Companies Limited’s (the “Company” or “Loblaw”) second quarter 2011 unaudited interim period condensed consolidated financial statements.

With this transition, the Company has two reportable operating segments:

- The **Retail** segment, which consists primarily of food and also includes drugstore, gas bars, apparel and other general merchandise; and
- The **Financial Services** segment, which includes credit card services, a retail loyalty program, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecom.

### Consolidated Quarterly Results of Operations

For the periods ended June 18, 2011 and June 19, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	<b>2011</b>	2010	% Change	<b>2011</b>	2010	% Change
	<b>(12 weeks)</b>	(12 weeks)		<b>(24 weeks)</b>	(24 weeks)	
Revenue	<b>\$ 7,278</b>	\$ 7,269	0.1%	<b>\$ 14,150</b>	\$ 14,182	(0.2%)
Operating income	<b>345</b>	345	–	<b>648</b>	634	2.2%
Net earnings	<b>197</b>	181	8.8%	<b>359</b>	313	14.7%
Basic net earnings per common share (\$)	<b>0.70</b>	0.65	7.7%	<b>1.28</b>	1.13	13.3%
Operating margin	<b>4.7%</b>	4.7%		<b>4.6%</b>	4.5%	
EBITDA <sup>(2)</sup>	<b>\$ 504</b>	\$ 487	3.5%	<b>\$ 959</b>	\$ 918	4.5%
EBITDA margin <sup>(2)</sup>	<b>6.9%</b>	6.7%		<b>6.8%</b>	6.5%	

(1) This report contains forward-looking information. See Forward-Looking Statements on page 5 of this report for a discussion of material factors that could cause actual results to differ materially from the conclusions, forecasts and projections herein and of the material factors and assumptions that were used. This report must be read in conjunction with Loblaw Companies Limited’s filings with securities regulators made from time to time, all of which can be found at [sedar.com](http://sedar.com) and at [loblaw.ca](http://loblaw.ca).

(2) See Non-GAAP Financial Measures on page 18 of this report.

- Revenue increased by \$9 million, or 0.1%, to \$7,278 million in the second quarter of 2011 compared to the second quarter of 2010. This increase was primarily due to the increase in Retail sales, which was partially offset by a decrease in Financial Services revenue as described below.
- Operating income and operating margin were flat in the second quarter of 2011 compared to the second quarter of 2010. Retail operating income improved by \$20 million, offset by continued investment in the growth of the Financial Services segment which resulted in a decline in operating income of \$20 million.
- Consolidated operating income included the following items:
  - Incremental costs of \$8 million related to investments in information technology and supply chain. These costs included the following charges:
    - \$2 million (2010 – \$16 million) related to changes in the distribution network;
    - \$38 million (2010 – \$26 million) related to depreciation and amortization; and
    - \$66 million (2010 - \$56 million) related to other supply chain and information technology costs.
  - A \$15 million charge related to certain prior years' commodity tax matters;
  - A charge of \$15 million (2010 – \$10 million) related to the effect of share-based compensation net of equity forwards; and
  - In the second quarter of 2010, a \$23 million asset impairment charge was recorded in connection with changes to the Company's distribution network.
- Net earnings increased by \$16 million or 8.8%, to \$197 million in the second quarter of 2011 compared to the second quarter of 2010 primarily due to lower income taxes and a decrease in net interest expense and other financing charges.

The consolidated quarterly results by reportable operating segments were as follows:

### Retail Results of Operations

For the periods ended June 18, 2011 and June 19, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2011			2010		
	(12 weeks)	(12 weeks)	% Change	(24 weeks)	(24 weeks)	% Change
Sales	\$ 7,157	\$ 7,146	0.2%	\$ 13,914	\$ 13,937	(0.2%)
Gross profit	1,626	1,601	1.6%	3,180	3,143	1.2%
Operating income	333	313	6.4%	618	578	6.9%
Same-store sales (decline) growth	(0.4%)	(0.3%)		(0.3%)	0.1%	
Gross profit	22.7%	22.4%		22.9%	22.6%	
Operating margin	4.7%	4.4%		4.4%	4.1%	

- In the second quarter of 2011, the following factors explain the major components in the change in Retail sales over the same period in the prior year:
  - Same-store sales declined by 0.4% (2010 – 0.3%);
  - Sales in food were flat;
  - Sales in drugstore declined moderately, negatively impacted by deflation due to 2010 generic prescription drug regulation changes in Ontario and other provinces, the continued impact of new generic versions of certain prescription drugs and further regulatory changes enacted in the second quarter of 2011 in Ontario;
  - Gas bar sales growth was strong as a result of higher retail gas prices and moderate volume growth;
  - Sales in general merchandise, excluding apparel, declined significantly due to continued reductions in square footage and optimization of range and assortment of products;
  - Increased apparel square footage led to a modest increase in sales; and
  - The Company experienced moderate average quarterly internal food price inflation during the second quarter of 2011, which was lower than the average quarterly national food price inflation of 4.0% (2010 – 0.3%) as measured by “The Consumer Price Index for Food Purchased from Stores” (“CPI”). In the second quarter of 2010, the Company experienced marginal average quarterly internal food price deflation. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.
- Gross profit increased by \$25 million to \$1,626 million (22.7% of sales) in the second quarter of 2011 compared to \$1,601 million in the second quarter of 2010 (22.4% of sales). This increase was mainly attributable to improved control label profitability, the shift of pharmaceutical professional allowances from selling, general and administrative expenses to gross profit and improved shrink. Increases in promotional pricing programs and transportation costs partially offset these improvements.
- Operating income increased by \$20 million, or 6.4%, to \$333 million in the second quarter of 2011 compared to \$313 million in the second quarter of 2010. Operating margin was 4.7% for the second quarter of 2011 compared to 4.4% in 2010. This increase was due to continued labour and other operating cost efficiencies and increased gross profit described above, partially offset by the charge related to certain prior years’ commodity tax matters, the incremental costs related to the investment in information technology and supply chain and the impact of share based compensation net of equity forwards. Included in operating income in the second quarter of 2010 was an asset impairment charge in connection with changes in the Company’s distribution network.

### Financial Services Results of Operations

For the periods ended June 18, 2011 and June 19, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2011			2010		
	(12 weeks)	(12 weeks)	% Change	(24 weeks)	(24 weeks)	% Change
Revenue	\$ 121	\$ 123	(1.6%)	\$ 236	\$ 245	(3.7%)
Operating income	12	32	(62.5%)	30	56	(46.4%)
Earnings before income taxes	2	24	(91.7%)	7	37	(81.1%)

Unaudited (millions of Canadian dollars except where otherwise indicated)	As at June 18, 2011	As at June 19, 2010	% Change
Average quarterly net credit card receivables	\$ 1,953	\$ 1,950	0.2%
Credit card receivables	1,974	1,883	4.8%
Credit card receivables provision	33	40	(17.5%)
Annualized yield on average quarterly gross credit card receivables	12.6%	13.8%	
Annualized credit loss rate on average quarterly gross credit card receivables	4.8%	6.3%	

- Revenue for the second quarter decreased by \$2 million, or 1.6%, to \$121 million compared to \$123 million in the second quarter of 2010. The decrease was primarily driven by increased customer payment rates resulting from both changing customer behaviours and more stringent credit risk management policies implemented in 2009. Although these practices resulted in lower revenues, they favourably impacted the annualized credit loss rate as planned.
- Operating income decreased by \$20 million, or 62.5%, to \$12 million in the second quarter of 2011 compared to \$32 million in the second quarter of 2010. Earnings before income taxes decreased by \$22 million, or 91.7%, to \$2 million compared to \$24 million in the second quarter of 2010. These decreases were attributable to significant marketing investments and customer acquisition costs, consistent with the Company's continued investment in the growth of its Financial Services segment. A lower credit card loss provision release as a result of a more stable economic environment also contributed to the decreases in operating income and earnings before income taxes. Lower revenues were largely offset by improved credit card losses.

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## Forward-Looking Statements

This Quarterly Report for Loblaw Companies Limited contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Words such as "anticipate", "expect", "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, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events.

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including, but not limited to:

- the possibility that the Company's plans and objectives will not be achieved;
- changes in economic conditions including the rate of inflation or deflation and changes in interest and currency exchange rates;
- changes in consumer spending and preferences;
- heightened competition, whether from new competitors or current competitors;
- changes in the Company's or its competitors' pricing strategies;
- failure of the Company's franchised stores to perform as expected;
- failure to realize revenue growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including investments in the Company's information technology systems, supply chain investments and other cost reduction initiatives, or unanticipated results from these initiatives;
- increased costs relating to utilities, including electricity and fuel;
- the inability of the Company to successfully implement its infrastructure and information technology components of its plan;
- the inability of the Company's information technology infrastructure to support the requirements of the Company's business;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure to execute successfully and in a timely manner the Company's introduction of innovative and reformulated products or new and renovated stores;
- the inability of the Company's supply chain to service the needs of the Company's stores;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- changes to and failure to comply with the legislative/regulatory environment in which the Company operates, including failure to comply with environmental laws and regulations;
- the adoption of new accounting standards and changes in the Company's use of accounting estimates;
- fluctuations in the Company's earnings due to changes in the value of share-based compensation and equity forward contracts relating to its Common Shares;
- changes in the Company's income, commodity and other tax liabilities including changes in tax laws or future assessments;
- reliance on the performance and retention of third-party service providers including those associated with the Company's supply chain and apparel business;
- public health events including those related to food safety;
- the inability of the Company to collect on its credit card receivables;
- any requirement of the Company to make contributions to its registered funded defined benefit pension plans in excess of those currently contemplated;

- the inability of the Company to attract and retain key executives;
- supply and quality control issues with vendors; and
- failure by the Company to maintain appropriate documentation to support its compliance with accounting, tax or legal rules, regulations and policies.

These and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Enterprise Risks and Risk Management section of this Management's Discussion and Analysis ("MD&A") and the MD&A included in the Company's 2010 Annual Report – Financial Review. These forward looking statements reflect management's current assumptions regarding these risks and uncertainties and their respective impact on the Company.

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. 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 Quarterly Report. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## 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 2011 unaudited interim period condensed consolidated financial statements and the accompanying notes included in this Quarterly Report, the audited annual consolidated financial statements and the accompanying notes for the year ended January 1, 2011 and the related annual MD&A included in the Company's 2010 Annual Report – Financial Review ("2010 Annual Report") and certain additional disclosures included in the Company's first quarter 2011 unaudited interim period condensed consolidated financial statements and accompanying notes and related interim MD&A.

The Company's second quarter 2011 unaudited interim period condensed consolidated financial statements and accompanying notes form part of the first annual audited consolidated financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") for the year ended December 31, 2011 and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described therein. 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.

A glossary of terms used throughout this Quarterly Report can be found on page 87 of the Company's 2010 Annual Report. In addition, this Quarterly Report includes the following terms: "rolling year net debt<sup>(1)</sup> to EBITDA<sup>(1)</sup>" which is defined as net debt<sup>(1)</sup> divided by cumulative EBITDA<sup>(1)</sup> for the latest four quarters; "rolling year return on average net assets<sup>(1)</sup>", which is defined as cumulative operating income for the latest four quarters divided by average net assets<sup>(1)</sup>; "rolling year return on average shareholders' equity", which is defined as cumulative net earnings available to common shareholders for the latest four quarters divided by average total common shareholders' equity; "annualized yield on average quarterly gross credit card receivables", which is defined as interest earned on credit card receivables divided by the number of days in the quarter times 365 divided by average quarterly gross credit card receivables; and "annualized credit loss rate on average quarterly gross credit card receivables", which is defined as total credit card losses divided by the number of days in the quarter times 365 divided by average quarterly gross credit card receivables.

The information in this MD&A is current to July 20, 2011, unless otherwise noted.

Due to the transition to IFRS effective January 2, 2011, all comparative figures for 2010 that were previously reported in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("CGAAP") have been restated to conform with IFRS. Further information on the transition to IFRS and its impact on the Company's financial position, financial performance and cash flows is included in note 16 to the Company's second quarter 2011 unaudited interim period condensed consolidated financial statements.

With this transition, the Company has two reportable operating segments:

- The **Retail** segment, which consists primarily of food and also includes drugstore, gas bars, apparel and other general merchandise; and
- The **Financial Services** segment, which includes credit card services, a retail loyalty program, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecom.

(1) See Non-GAAP Financial Measures on page 18.

## Consolidated Results of Operations

For the periods ended June 18, 2011 and June 19, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2011			2010		
	(12 weeks)	(12 weeks)	% Change	(24 weeks)	(24 weeks)	% Change
Revenue	\$ 7,278	\$ 7,269	0.1%	\$ 14,150	\$ 14,182	(0.2%)
Operating income	345	345	–	648	634	2.2%
Net earnings	197	181	8.8%	359	313	14.7%
Basic net earnings per common share (\$)	0.70	0.65	7.7%	1.28	1.13	13.3%
Operating margin	4.7%	4.7%		4.6%	4.5%	
EBITDA <sup>(1)</sup>	\$ 504	\$ 487	3.5%	\$ 959	\$ 918	4.5%
EBITDA margin <sup>(1)</sup>	6.9%	6.7%		6.8%	6.5%	

**Revenue** Revenue for the second quarter increased by 0.1% to \$7,278 million compared to \$7,269 million in the second quarter of 2010. This increase was primarily due to the increase in Retail sales, which was partially offset by the decrease in Financial Services revenue as described below. For the first two quarters of the year, revenue decreased by 0.2% to \$14,150 million compared to the same period in 2010.

**Operating Income** Operating income and operating margin were flat in the second quarter of 2011 at \$345 million and 4.7% respectively compared to the second quarter of 2010. Year-to-date operating income for 2011 increased by \$14 million, or 2.2%, to \$648 million and resulted in an operating margin of 4.6%, compared to 4.5% in 2010. Retail operating income improved by \$20 million in the second quarter and by \$40 million year-to-date, offset in both periods by continued investment in the growth of the Financial Services segment, which resulted in a decline in operating income of \$20 million in the second quarter and \$26 million year-to-date.

Included in consolidated operating income are the following items:

- Incremental costs of \$8 million (year-to-date – \$51 million) related to investments in information technology and supply chain. These costs included the following charges:
  - \$2 million (2010 - \$16 million) in the second quarter and \$23 million (2010 - \$21 million) year-to-date related to changes in the distribution network;
  - \$38 million (2010 - \$26 million) in the second quarter and \$74 million (2010 - \$50 million) year-to-date related to depreciation and amortization; and
  - \$66 million (2010 - \$56 million) in the second quarter and \$137 million (2010 - \$112 million) year-to-date related to other supply chain and information technology costs.
- A \$15 million charge (2010 – nil) in the second quarter and year-to-date related to certain prior years' commodity tax matters;
- A charge of \$15 million (2010 - \$10 million) in the second quarter and \$8 million (2010 - \$16 million) year-to-date related to the effect of share-based compensation net of equity forwards;
- A year-to-date charge of \$8 million related to an internal re-alignment of the business centred around the Company's two primary store formats, Discount and Conventional. These costs were incurred in the first quarter of 2011; and
- In the second quarter of 2010, a \$23 million asset impairment charge was recorded in connection with changes in the Company's distribution network.

EBITDA<sup>(1)</sup> increased by \$17 million, or 3.5%, to \$504 million in the second quarter of 2011 compared to \$487 million in the second quarter of 2010. EBITDA margin<sup>(1)</sup> increased in the second quarter of 2011 to 6.9% from 6.7% in the comparable period in 2010. Year-to-date EBITDA<sup>(1)</sup> increased by \$41 million, or 4.5%, to \$959 million compared to \$918 million in the comparable period in 2010. Year-to-date EBITDA margin<sup>(1)</sup> improved to 6.8% compared to 6.5% for the same period last year.

(1) See Non-GAAP Financial Measures on page 18.

**Net Interest Expense and Other Financing Charges** In the second quarter of 2011, net interest expense and other financing charges decreased \$3 million, or 3.7%, to \$78 million from \$81 million in the second quarter of 2010 primarily due to an increase in interest income. Year-to-date net interest and other financing charges decreased to \$151 million compared to \$168 million in 2010. This decrease was mainly attributable to the decrease in long term debt in the first quarter of 2011 compared to 2010 and an increase in net interest income on financial derivative instruments.

**Income Taxes** The effective income tax rates for the second quarter and year-to-date 2011 were 26.2% (2010 – 31.4%) and 27.8% (2010 – 32.8%), respectively. Both the second quarter and year-to-date decreases in the effective income tax rates compared to the same periods in 2010 were primarily due to a decrease in income tax expense related to certain prior year income tax matters and further reductions in the Federal and Ontario statutory income tax rates.

**Net Earnings** Net earnings for the second quarter of 2010 increased by \$16 million, or 8.8%, to \$197 million from \$181 million in the second quarter of 2010 and year-to-date increased by \$46 million, or 14.7%, to \$359 million from \$313 million in 2010. Basic net earnings per common share for the second quarter increased by \$0.05, or 7.7%, to \$0.70 from \$0.65 in the second quarter of 2010 and year-to-date increased by \$0.15, or 13.3%, to \$1.28 compared to \$1.13 for the same period last year.

Basic net earnings per common share for the second quarter of 2011 and year-to-date were impacted by the following:

- A \$0.02 (year-to-date – \$0.13) charge related to the incremental costs for the Company's investment in information technology and supply chain;
- A \$0.04 (year-to-date – \$0.04) charge related to certain prior years' commodity tax matters;
- A \$0.04 (2010 – \$0.02) charge in the second quarter and a \$0.03 (2010 – \$0.03) year-to-date charge for the effect of share based compensation net of equity forwards;
- A \$0.02 year-to-date charge related to the internal re-alignment charge of the business; and
- A \$0.06 charge in the second quarter of 2010 related to the asset impairment charge.

## Reportable Operating Segments

### Retail

For the periods ended June 18, 2011 and June 19, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2011			2010		
	(12 weeks)	(12 weeks)	% Change	(24 weeks)	(24 weeks)	% Change
Sales	\$ 7,157	\$ 7,146	0.2%	\$ 13,914	\$ 13,937	(0.2%)
Gross profit	1,626	1,601	1.6%	3,180	3,143	1.2%
Operating income	333	313	6.4%	618	578	6.9%
Same-store sales (decline) growth	(0.4%)	(0.3%)		(0.3%)	0.1%	
Gross profit	22.7%	22.4%		22.9%	22.6%	
Operating margin	4.7%	4.4%		4.4%	4.1%	

**Sales** Sales for the second quarter increased by 0.2% to \$7,157 million compared to \$7,146 million in the second quarter of 2010.

The following factors explain the major components that influenced sales for the second quarter of 2011 compared to the second quarter of 2010:

- Same-store sales declined by 0.4% (2010 – 0.3%);
- Sales in food were flat;
- Sales in drugstore declined moderately, negatively impacted by deflation due to 2010 generic prescription drug regulation changes in Ontario and other provinces, the continued impact of new generic versions of certain prescription drugs and further regulatory changes enacted in the second quarter of 2011 in Ontario;
- Gas bar sales growth was strong as a result of higher retail gas prices and moderate volume growth;
- Sales in general merchandise, excluding apparel, declined significantly due to continued reductions in square footage and optimization of range and assortment of products;

- Increased apparel square footage led to a modest increase in sales; and
- The Company experienced moderate average quarterly internal food price inflation during the second quarter of 2011, which was lower than the average quarterly national food price inflation of 4.0% (2010 – 0.3%) as measured by “The Consumer Price Index for Food Purchased from Stores” (“CPI”). In the second quarter of 2010, the Company experienced marginal average quarterly internal food price deflation. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

For the first two quarters of the year, sales declined by 0.2%, or \$23 million, to \$13,914 million compared to the same period in 2010 driven primarily by the factors noted above. For the first two quarters of the year, same-store sales declined by 0.3% (2010 – 0.1% growth).

**Gross Profit** Gross profit increased by \$25 million to \$1,626 million (22.7% of sales) in the second quarter of 2011 compared to \$1,601 million in the second quarter of 2010 (22.4% of sales). Year-to-date gross profit increased by \$37 million to \$3,180 million (22.9% of sales) compared to \$3,143 million (22.6% of sales) in the comparable period of 2010. For the second quarter of 2011, the increase in gross profit and gross profit as a percentage of sales was mainly attributable to improved control label profitability, the shift of pharmaceutical professional allowances from selling, general and administrative expenses to gross profit and improved shrink. Increases in promotional pricing programs and transportation costs partially offset these improvements. In addition to the factors described above, year-to-date gross profit and gross profit as a percentage of sales were also positively impacted by a stronger Canadian dollar, partially offset by the timing of vendor programs.

**Operating Income** Operating income increased by \$20 million, or 6.4%, to \$333 million in the second quarter of 2011 compared to \$313 million in the second quarter of 2010. Operating margin was 4.7% for the second quarter of 2011 compared to 4.4% in 2010. Year-to-date operating income for 2011 increased by \$40 million, or 6.9%, to \$618 million and resulted in an operating margin of 4.4% compared to 4.1% in the comparable period in 2010.

The increases in operating income and operating margin were mainly attributable to continued labour and other operating cost efficiencies and the increase in gross profit described above. The incremental costs related to the investment in information technology and supply chain and the charge related to certain prior years’ commodity tax matters partially offset these improvements. Included in operating income in the second quarter of 2010 was an asset impairment charge in connection with changes in the Company’s distribution network. For the second quarter of 2011, the impact of share based compensation net of equity forwards was negative compared to the second quarter in 2010 while the impact on year-to-date operating income was positive over 2010. Year-to-date operating income was also positively impacted by a stronger Canadian dollar and negatively impacted by the charge recorded in the first quarter of 2011 associated with the internal re-alignment of the business.

## Financial Services

For the periods ended June 18, 2011 and June 19, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2011			2010		
	(12 weeks)	(12 weeks)	% Change	(24 weeks)	(24 weeks)	% Change
Revenue	\$ 121	\$ 123	(1.6%)	\$ 236	\$ 245	(3.7%)
Operating income	12	32	(62.5%)	30	56	(46.4%)
Earnings before income taxes	2	24	(91.7%)	7	37	(81.1%)

Unaudited (millions of Canadian dollars except where otherwise indicated)	As at June 18, 2011	As at June 19, 2010	% Change
Average quarterly net credit card receivables	\$ 1,953	\$ 1,950	0.2%
Credit card receivables	1,974	1,883	4.8%
Credit card receivables provision	33	40	(17.5%)
Annualized yield on average quarterly gross credit card receivables	12.6%	13.8%	
Annualized credit loss rate on average quarterly gross credit card receivables	4.8%	6.3%	

## Management's Discussion and Analysis

**Revenue** Revenue for the second quarter decreased by \$2 million, or 1.6%, to \$121 million compared to \$123 million in the second quarter of 2010. Year-to-date revenue declined by \$9 million, or 3.7%, to \$236 million compared to \$245 million in 2010. These decreases were primarily driven by increased customer payment rates resulting from both changing customer behaviours and more stringent credit risk management policies implemented in 2009. Although these practices resulted in lower revenue, they favourably impacted the annualized credit loss rate as planned.

**Operating Income and Earnings Before Income Taxes** Operating income decreased by \$20 million, or 62.5%, to \$12 million in the second quarter of 2011 compared to \$32 million in the second quarter of 2010. Year-to-date operating income decreased by \$26 million, or 46.4%, to \$30 million in 2011 compared to \$56 million in 2010. Earnings before income taxes decreased by \$22 million, or 91.7%, to \$2 million compared to \$24 million in the second quarter of 2010. Year-to-date earnings before income taxes decreased by \$30 million, or 81.1%, to \$7 million in 2011 compared to \$37 million in 2010. These decreases were attributable to significant marketing investments and customer acquisition costs, consistent with the Company's continued investment in the growth of the Financial Services segment. A lower credit card loss provision release as a result of a more stable economic environment also contributed to the decreases in operating income and earnings before income taxes. Lower revenues were largely offset by improved credit card losses.

### Consolidated Financial Condition

**Net Debt<sup>(1)</sup>** As at June 18, 2011, net debt<sup>(1)</sup> was \$4,578 million compared to \$4,565 million as at January 1, 2011. The increase of \$13 million is due to fixed asset purchases and interest paid on debt obligations. This was partially offset by positive cash flows from operations in the first half of the year, cash received from franchisees and cash received on the issuance of common shares under the Company's stock option program.

**Financial Ratios** Due to the transition to IFRS described below, rolling year ratios have only been provided for the rolling years ended June 18, 2011 and January 1, 2011.

The Company's net debt<sup>(1)</sup> to equity<sup>(1)</sup> ratio was 0.75:1 at the end of the second quarter of 2011 compared to 0.86:1 at the end of the second quarter of 2010. The decrease in this ratio was due to the decrease in net debt<sup>(1)</sup> and the increase in operating income described above. The rolling net debt<sup>(1)</sup> to EBITDA<sup>(1)</sup> ratio was flat at 2.3 times at the end of the second quarter of 2011 compared to 2.3 times at the end of 2010.

The reduction in net interest expense and other financing charges and the increase in operating income as described above resulted in an improvement in the interest coverage ratio to 4.3 times at the end of the second quarter of 2011 from 3.8 times at the end of the second quarter of 2010.

The rolling year return on average net assets<sup>(1)</sup> remained flat at 12.0% for the second quarter of 2011 compared to 12.0% for the year ended January 1, 2011.

The rolling year return on average shareholder's equity at the end of the second quarter of 2011 was 13.0% compared to 12.6% at the end of 2010, due to the increase in rolling year net earnings.

**Equity Forward Contracts** As at June 18, 2011, Glenhuron Bank Limited, a wholly owned subsidiary of the Company, had equity forwards contracts to buy 1.5 million (June 19, 2010, January 1, 2011 – 1.5 million) of the Company's common shares at an average forward price of \$56.36 (June 19, 2010 – \$66.73; January 1, 2011 – \$56.26), including \$0.14 (June 19, 2010 – \$10.51; January 1, 2011 – \$0.04) per common share of interest expense. As at June 18, 2011 the cumulative interest and unrealized market loss of \$26 million (June 19, 2010 – \$40 million; January 1, 2011 – \$24 million) was included in trade payables and other liabilities.

(1) See Non-GAAP Financial Measures on page 18.

## Liquidity and Capital Resources

### Major Cash Flow Components

(millions of Canadian dollars)	2011 (12 weeks)	2010 (12 weeks)	Change	2011 (24 weeks)	2010 (24 weeks)	Change
Cash flows from (used in):						
Operating activities	\$ 481	\$ 676	\$ (195)	\$ 500	\$ 768	\$ (268)
Investing activities	(152)	(142)	(10)	(79)	(320)	241
Financing activities	18	(86)	104	(502)	(255)	(247)

**Cash Flows from Operating Activities** Cash flows from operating activities for the second quarter of 2011 were \$481 million, which included EBITDA<sup>(1)</sup> of \$504 million and an increase in non-cash working capital of \$17 million due to changes in accounts receivable, inventory and prepaid and other assets, partially offset by changes in trade payables and other liabilities.

Cash flows from operating activities decreased by \$195 million in the second quarter of 2011 to \$481 million from \$676 million in 2010. On a year-to-date basis, cash flows from operating activities decreased by \$268 million to \$500 million compared to \$768 million in 2010. The changes in 2010 were mainly due to a reduction in non-cash working capital driven by more stringent vendor management policies related to the Company's trade payables and other liabilities, which continued in 2011. The year-to-date decrease was impacted by the items noted above partially offset by a decrease in income taxes paid over the prior year.

**Cash Flows used in Investing Activities** Cash flows used in investing activities were \$152 million in the second quarter of 2011 compared to \$142 million in 2010. The change was primarily due to an increase in short term investments partially offset by fewer fixed asset purchases in 2011 and a decrease in franchise receivables.

On a year-to-date basis, cash flows used in investing activities were \$79 million compared to \$320 million in the comparable period in 2010. The year-to-date change was primarily due to the inflows related to security deposits and short term investments, and an increase in franchise receivables.

**Cash Flows from (used in) Financing Activities** Cash flows from financing activities were \$18 million in the second quarter of 2011 compared to cash flows used in financing activities of \$86 million in 2010. The change of \$104 million was due to the issuance of \$133 million of President's Choice Bank ("PC Bank") Guaranteed Investment Certificates ("GICs") in 2011, partially offset by the Company's 2010 repayment of \$300 million 7.10% medium term note and the 2010 issuance of \$350 million of 5.22% medium term notes.

On a year-to-date basis, cash flows used in financing activities were \$502 million compared to \$255 million in the comparable period in 2010. The change of \$247 million was primarily due to an increase in net repayments of long term debt partially offset by increases in the Company's accounts receivable securitization program. In 2011, the net repayments of long term debt consist primarily of repayment of the \$500 million *Eagle Credit Card Trust Series 2006-I Notes* and the \$350 million 6.50% medium term notes partially offset by the issuance of \$179 million in GICs by PC Bank. In 2010, the net repayments of long term debt consist primarily of the repayment of \$300 million 7.10% medium term note net of the issuance of \$350 million 5.22% medium term notes.

**Post-Employment Defined Benefit Pension Plan Contributions** During the first two quarters of 2011, the Company contributed \$57 million (2010 – \$42 million) to its registered funded defined benefit pension plans. The Company expects to contribute approximately \$43 million to these plans during the remainder of 2011. The actual amount paid may vary from the estimate based on actuarial valuations being completed, market performance and regulatory requirements.

(1) See Non-GAAP Financial Measures on page 18.

## Sources of Liquidity

The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its committed credit facility will enable the Company to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding and financial obligations, over the next 12 months. The Company has traditionally obtained its long term financing primarily through a Medium Term Notes program. The Company may refinance maturing long term debt with medium term notes if market conditions are appropriate or it may consider other alternatives. In addition, given reasonable access to capital markets, the Company does not foresee any impediments in obtaining financing to satisfy its long term obligations.

The Company's \$800 million committed credit facility, which expires in March 2013, contains certain financial covenants with which the Company was in compliance as at June 18, 2011. In addition to cash and short term investments, this facility is the primary source of liquidity for the Company and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates. As at June 18, 2011 and June 19, 2010, the Company had not drawn on its committed credit facility.

PC Bank participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. PC Bank purchases receivables from and sells receivables to the independent credit card trusts from time to time depending on PC Bank's financing requirements. PC Bank also obtains short-term and long-term financing through its GIC Program.

In addition to PC Bank's securitized receivables, the independent credit card trusts' recourse is limited to standby letters of credit arranged by the Company as at June 18, 2011 of \$81 million (June 19, 2010 – \$103 million; January 1, 2011 – \$48 million) based on a portion of the securitized amount.

During the second quarter of 2011, PC Bank sold \$133 million (2010 – nil) and \$179 million (2010 – nil) year-to-date in GICs through independent brokers.

The credit ratings of the Company as disclosed in the 2010 Annual Report did not change in the second quarter of 2011. During the second quarter of 2011, Standard & Poor's reaffirmed its credit rating and outlook for the Company.

**Independent Funding Trusts** During the second quarter of 2011, the \$475 million revolving committed credit facility that is the source of funding to the independent funding trusts was renewed and extended for a 3 year period. As a result of the renewal, the Company's credit enhancement was reduced from 15% to 10%. Other terms and conditions remain substantially the same.

**Dividends** During the second quarter of 2011, the Company's Board of Directors ("Board") declared dividends of \$0.21 (2010 – \$0.21) per common share with a payment date of July 1, 2011 and \$0.42 (2010 – \$0.42) year-to-date per common share and \$0.37 (2010 – \$0.37) per Second Preferred Shares, Series A with a payment date of July 31, 2011. At the time such dividends are declared, the Company identifies on its website ([loblaw.ca](http://loblaw.ca)) the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency. Subsequent to the end of the quarter, the Board declared a quarterly dividend of \$0.21 per common share payable on October 1, 2011 and \$0.37 per Second Preferred Share, Series A, payable October 30, 2011.

**Dividend Reinvestment Plan ("DRIP")** During the first quarter of 2011, the Board approved the discontinuance of the DRIP after the dividend payment on April 1, 2011. On April 1, 2011, the Company issued 1,142,380, (2010 – 1,120,453) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in incremental equity to the Company of approximately \$43 million (2010 – \$41 million). Since the inception of the DRIP in 2009, approximately \$330 million in total common share equity was raised.

**Normal Course Issuer Bid ("NCIB")** During the second quarter of 2011, the Company renewed its NCIB to purchase on the Toronto Stock Exchange, or enter into equity derivatives to purchase, up to 14,096,437 (2010 – 13,865,435) of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, the Company may purchase its shares at the then market price of such shares. During the second quarter of 2011, the Company purchased for cancellation 80,000 (2010 – nil) of its common shares at an average market price of \$40.92 (2010 – nil) including commissions.

## Quarterly Results of Operations

Under an accounting convention common in the food distribution industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. 2011, 2010 and 2009 are 52-week fiscal years. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period condensed consolidated financial statements for each of the eight most recently completed quarters. This information is prepared in accordance with IFRS except for the 2009 information which was prepared in accordance with CGAAP as indicated in the table below.

### Summary of Consolidated Quarterly Results

(unaudited)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
(millions of Canadian dollars except where otherwise indicated)	2011 (12 weeks)	2010 (12 weeks)	2011 (12 weeks)	2010 (12 weeks)	2010 (12 weeks)	2009 (12 weeks – CGAAP)	2010 (16 weeks)	2009 (16 weeks – CGAAP)
Revenue	\$ 7,278	\$ 7,269	\$ 6,872	\$ 6,913	\$ 7,119	\$ 7,311	\$ 9,535	\$ 9,473
Net earnings	\$ 197	\$ 181	\$ 162	\$ 132	\$ 165	\$ 165	\$ 197	\$ 189
Net earnings per common share								
Basic (\$)	\$ 0.70	\$ 0.65	\$ 0.58	\$ 0.48	\$ 0.59	\$ 0.60	\$ 0.71	\$ 0.69
Diluted (\$)	\$ 0.67	\$ 0.64	\$ 0.56	\$ 0.45	\$ 0.58	\$ 0.59	\$ 0.70	\$ 0.69
Average national food price inflation (as measured by CPI)	4.0%	0.3%	2.5%	0.7%	1.5%	1.6%	1.3%	4.2%
Retail same-store sales growth (decline)	(0.4%)	(0.3%)	(0.1%)	0.3%	(1.6%)	(7.8%) <sup>(1)</sup>	(0.4%)	(0.6%)

(1) As compared to a 13-week quarter in 2008

Since the third quarter of 2009, net retail square footage has increased by 0.2 million square feet to 50.8 million square feet.

Fluctuations in quarterly net earnings reflect the underlying operations of the Company as well as the impact of a number of specific charges including the impact of share-based compensation net of equity forwards, costs related to the incremental investment in information technology and supply chain, internal business re-alignment charges, charges related to certain prior years' commodity tax matters and asset impairment charges. Earnings in the third and fourth quarters of 2010 were pressured by investments in pricing. Quarterly net earnings are also affected by seasonality and the timing of holidays. The impact of seasonality is greatest in the fourth quarter and least in the first quarter.

### 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 GAAP.

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 necessarily required to use judgement in evaluating controls and procedures.

There were no changes in the Company's internal control over financial reporting during the second quarter of 2011 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

## Enterprise Risks and Risk Management

Detailed descriptions of the operating and financial risks and risk management strategies are included in the Enterprise Risks and Risk Management Section on page 18 of the MD&A as well as note 25 to the Company's 2010 Annual Report. The following is an update to those risks and risk management strategies:

**Enterprise Resource Planning ("ERP") and Other Systems Implementations** The Company continues to undertake a major upgrade of its information technology infrastructure. In 2010, the Company began to deploy its new ERP system. This project, along with other systems implementations planned for 2011 and beyond, is one of the largest technology infrastructure programs ever implemented by the Company and is fundamental to its long-term growth strategies. During the first quarter of 2011, the Company combined and streamlined its ERP and other significant system implementations. During, and subsequent to the second quarter of 2011, the Company rolled out the next waves of its ERP implementation to its merchandising organization which included a number of critical operating enhancements and expanded operating functionality. The Company now has approximately one-third of its categories live on the new systems. Completing the ERP deployment will require continued focus and significant investment. 2011 will continue to be a critical year for the ERP implementation as the Company remains focused on the roll-out to the remainder of its merchandising organization and ensuring the integrity of converted data. The failure to successfully migrate from legacy systems to the ERP could negatively affect the Company's reputation, operations and its revenues and financial performance. Failure or disruption in the Company's information technology systems during the implementation of the ERP or other new systems may result in a lack of relevant and reliable information to enable management to effectively achieve its strategic plan or manage the day-to-day operations of the business, causing significant disruptions to the business and potential financial losses. In addition, the failure to implement appropriate processes to support the ERP system may result in inefficiencies and duplication in current processes.

**Change Management** In the first quarter of 2011, the Company introduced a new organizational structure centred around the Company's two primary store formats, Discount and Conventional. In addition, on August 2, 2011, the newly appointed President will join the Company. Failure to properly execute the various initiatives and manage through change may increase the risk of customer dissatisfaction, which in turn could adversely affect the reputation, operations and financial performance of the Company. The failure to properly integrate several large, complex initiatives in a timely manner will adversely impact the operations of the Company. If colleagues are not able to develop and perform new roles, processes and disciplines, the Company may not always achieve the expected cost savings and other benefits of its initiatives.

**Tax and Regulatory** The Company is subject to tax audits from various government and regulatory agencies on an on-going basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or change legislation, which could lead to reassessments. These reassessments may have a material impact on the Company in future periods. During the second quarter of 2011, the Company was advised that it will be reassessed an amount for certain prior years' commodity tax matters and also received a proposed reassessment from the Quebec Revenue Agency regarding the Company's entitlement to certain previously claimed commodity tax credits. Subsequent to the second quarter of 2011, the Company received an update to the proposed reassessment from the Quebec Revenue Agency. While the Company is in the process of reviewing this updated reassessment, it does not expect the final reassessment to result in a material impact to the Company's financial statements in future periods.

In 2010 and 2011, the provincial governments of Quebec, Ontario, Alberta, Saskatchewan, Nova Scotia and British Columbia introduced amendments to the regulation of generic prescription drug prices paid by provincial governments pursuant to public drug benefit plans. Under these amendments, costs of generic drugs paid by the provincial drug plans are being reduced, and in Ontario, the current system of drug manufacturers paying professional allowances to pharmacies will be eliminated. The amendments also reduce the costs of generic drugs purchased out-of-pocket or through private employer drug plans. The Company continues to identify opportunities to mitigate the impact of these amendments, including the introduction of programs to add new services and enhance existing services to attract customers. The amendments could have a material impact on the financial results of the Company if it is not able to effectively mitigate their negative impact.

## Transition to IFRS

The Company's unaudited interim period condensed consolidated financial statements were prepared in accordance with IFRS and IAS 34, "Interim Financial Reporting", including its 2010 comparative figures.

Reconciliations prepared in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards" are provided in note 16 to the unaudited interim period condensed consolidated financial statements. The IFRS 1 reconciliations for the first quarter of 2011, year ended 2010 and opening IFRS balance sheet 2010 are included in note 16 of the Company's 2011 First Quarter Report.

## Future Accounting Standards

**Consolidated Financial Statements** On May 12, 2011, IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"). This IFRS replaces portions of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") that addresses consolidation, and supersedes Standing Interpretations Committee ("SIC") Interpretation 12, "Consolidation – Special Purpose Entities" in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended for the issuance of IFRS 10 and retains guidance only for separate financial statements.

**Joint Arrangements** On May 12, 2011, the IASB issued IFRS 11, "Joint Ventures" ("IFRS 11"). IFRS 11 supersedes IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28") has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

**Disclosure of Interests in Other Entities** On May 12, 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"). This IFRS requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Company is currently assessing the impact of these new standards and amendments on its consolidated financial statements.

**Fair Value Measurement** On May 12, 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

**Employee Benefits** On June 16, 2011 the IASB revised IAS 19, "Employee Benefits". The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

**Presentation of Financial Statements** On June 16, 2011 the IASB issued amendments to IAS 1, "Presentation of Financial Statements". The amendments enhance the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

**Financial Instruments – Disclosures** On October 7, 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011 and therefore the Company will apply the amendment in the first quarter of 2012. The Company is currently assessing the impact of the amendment on its financial statement disclosures.

**Deferred Tax – Recovery of Underlying Assets** On December 20, 2010, the IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12"), that introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. The Company has elected to account for its investment properties at cost and as such does not expect the implementation of the amendment to have a significant impact on its financial statements.

**Financial Instruments** The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2013. The Company is currently assessing the impact of the new standard on its financial statements.

#### **Outlook<sup>(1)</sup>**

The Company remains focused on building out its infrastructure and developing opportunities for growth. Unpredictable and competitively intense market conditions continue to put retail sales at risk. For the year, the Company plans to continue its investment in information technology and supply chain, which will negatively impact operating income. A combination of the Company's rephasing activity to fit the organization change and better planning and procurement will result in information technology and supply chain spend of approximately \$100 million for the year, which is less than the \$135 million disclosed in the first quarter of 2011. The Company continues to expect that its capital expenditures will remain at approximately \$1.0 billion for the year.

#### **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](http://sedar.com) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator of the Company's subsidiary, PC Bank.

(1) To be read in conjunction with "Forward-Looking Statements" on page 5.

## Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: EBITDA and EBITDA margin, net debt, rolling year net debt to EBITDA, net debt to equity and rolling year return on average net assets. 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. 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.

**EBITDA and EBITDA Margin** The following table reconciles earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("EBITDA") to operating income, which is reconciled to GAAP net earnings measures reported in the unaudited interim period condensed consolidated statements of earnings for the twenty-four week periods ended June 18, 2011 and June 19, 2010. EBITDA is useful to management in assessing the performance of the Company's ongoing operations and its ability to generate cash flows to fund cash requirements, including the Company's capital investment program.

EBITDA margin is calculated as EBITDA divided by revenue.

For the periods ended June 18, 2011 and June 19, 2010 (unaudited) (millions of Canadian dollars)	2011 (12 weeks)	2010 (12 weeks)	2011 (24 weeks)	2010 (24 weeks)
Net earnings	\$ 197	\$ 181	\$ 359	\$ 313
Add impact of the following:				
Income taxes	70	83	138	153
Net interest expense and other financing charges	78	81	151	168
Operating income	345	345	648	634
Add impact of the following:				
Depreciation and amortization	159	142	311	284
EBITDA	\$ 504	\$ 487	\$ 959	\$ 918

**Net Debt** The following table reconciles net debt used in the net debt to equity and the rolling year net debt to EBITDA ratios to GAAP measures reported as at the periods ended as indicated. The Company calculates net debt as the sum of bank indebtedness, short term debt, long term debt, certain other liabilities and the related fair value of financial derivatives less cash and cash equivalents, short term investments, security deposits and the related fair value of financial derivatives. The Company believes that this measure is useful in assessing the amount of financial leverage employed.

(millions of Canadian dollars)	As at June 18, 2011	As at June 19, 2010	As at January 1, 2011
Bank indebtedness	\$ -	\$ 14	\$ 10
Short term debt	905	1,135	535
Long term debt due within one year	81	870	902
Long term debt	5,364	4,570	5,198
Certain other liabilities	35	37	35
Fair value of financial derivatives related to the above	43	49	37
	6,428	6,675	6,717
Less: Cash and cash equivalents	774	919	857
Short term investments	699	697	754
Security deposits	183	194	354
Fair value of financial derivatives related to the above	194	182	187
	1,850	1,992	2,152
Net debt	\$ 4,578	\$ 4,683	\$ 4,565

## Management's Discussion and Analysis

The Second Preferred Shares, Series A are classified as capital securities and are excluded from the calculation of net debt.

**Net Assets** The following table reconciles net assets used in the rolling year return on average net assets ratio to GAAP measures reported as at the periods ended as indicated. The Company believes that the rolling year return on average net assets is useful in assessing the return on productive assets.

Net assets is calculated as total assets less cash and cash equivalents, short term investments, security deposits included in other assets and accounts payable and accrued liabilities.

(millions of Canadian dollars)	<b>As at June 18, 2011</b>	As at June 19, 2010	As at January 1, 2011
Total assets	<b>\$ 16,579</b>	\$ 16,123	\$ 16,841
Less: Cash and cash equivalents	<b>774</b>	919	857
Short term investments	<b>699</b>	697	754
Security deposits	<b>183</b>	194	354
Trade payables and other liabilities	<b>3,273</b>	3,182	3,522
<b>Net assets</b>	<b>\$ 11,650</b>	\$ 11,131	\$ 11,354

**Equity** The following table reconciles equity used in the net debt to equity ratio to GAAP measures reported as at the periods ended.

Equity is calculated as the sum of capital securities and shareholder's equity.

(millions of Canadian dollars)	<b>As at June 18, 2011</b>	As at June 19, 2010	As at January 1, 2011
Capital securities	<b>\$ 221</b>	\$ 220	\$ 221
Shareholders' equity	<b>5,883</b>	5,240	5,603
<b>Equity</b>	<b>\$ 6,104</b>	\$ 5,460	\$ 5,824

July 20, 2011  
Toronto, Canada

## Unaudited Interim Period Condensed Consolidated Financial Statements

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## Condensed Consolidated Statements of Earnings

For the periods ended June 18, 2011 and June 19, 2010

Unaudited

(millions of Canadian dollars except where otherwise indicated)

	<b>2011 (12 weeks)</b>	2010 (12 weeks)	<b>2011 (24 weeks)</b>	2010 (24 weeks)
<b>Revenue</b>	<b>\$ 7,278</b>	\$ 7,269	<b>\$ 14,150</b>	\$ 14,182
<b>Cost of Merchandise Inventories Sold</b> (note 7)	<b>5,533</b>	5,547	<b>10,736</b>	10,796
<b>Selling, General and Administrative Expenses</b>	<b>1,400</b>	1,377	<b>2,766</b>	2,752
<b>Operating Income</b>	<b>345</b>	345	<b>648</b>	634
Net interest expense and other financing charges (note 3)	<b>78</b>	81	<b>151</b>	168
<b>Earnings Before Income Taxes</b>	<b>267</b>	264	<b>497</b>	466
Income taxes (note 4)	<b>70</b>	83	<b>138</b>	153
<b>Net Earnings</b>	<b>\$ 197</b>	\$ 181	<b>\$ 359</b>	\$ 313
<b>Net Earnings Per Common Share</b> (\$) (note 5)				
Basic	<b>\$ 0.70</b>	\$ 0.65	<b>\$ 1.28</b>	\$ 1.13
Diluted	<b>\$ 0.67</b>	\$ 0.64	<b>\$ 1.24</b>	\$ 1.09

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

## Condensed Consolidated Statements of Comprehensive Income

For the periods ended June 18, 2011 and June 19, 2010

Unaudited (millions of Canadian dollars)	2011 (12 weeks)	2010 (12 weeks)	2011 (24 weeks)	2010 (24 weeks)
Net earnings	\$ 197	\$ 181	\$ 359	\$ 313
Net gain (loss) on derivatives designated as cash flow hedges	-	1	-	(1)
Reclassification of loss on derivatives designated as cash flow hedges to net earnings	-	1	-	4
	-	2	-	3
Net defined benefit plan actuarial loss (note 11)	(67)	(49)	(63)	(81)
Other comprehensive loss	(67)	(47)	(63)	(78)
<b>Total Comprehensive Income</b>	<b>\$ 130</b>	<b>\$ 134</b>	<b>\$ 296</b>	<b>\$ 235</b>

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

## Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited (millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<b>Balance at January 1, 2011</b>	<b>1,475</b>	<b>4,122</b>	<b>1</b>	<b>5</b>	<b>5,603</b>
Net earnings	–	359	–	–	359
Other comprehensive loss (note 11)	–	(63)	–	–	(63)
<b>Total Comprehensive Income</b>	<b>–</b>	<b>296</b>	<b>–</b>	<b>–</b>	<b>296</b>
Dividend Reinvestment Plan (note 10)	43	–	–	–	43
Effect of share-based compensation (note 12)	24	–	38	–	62
Purchased for cancellation (note 10)	(3)	–	–	–	(3)
Dividends declared per common share (\$) – \$0.42	–	(118)	–	–	(118)
	64	178	38	–	280
<b>Balance at June 18, 2011</b>	<b>1,539</b>	<b>4,300</b>	<b>39</b>	<b>5</b>	<b>5,883</b>

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

Unaudited (millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<b>Balance at January 3, 2010</b>	<b>1,308</b>	<b>3,771</b>	<b>–</b>	<b>1</b>	<b>5,080</b>
Net earnings	–	313	–	–	313
Other comprehensive (loss) income (note 11)	–	(81)	–	3	(78)
<b>Total Comprehensive Income</b>	<b>–</b>	<b>232</b>	<b>–</b>	<b>3</b>	<b>235</b>
Dividend Reinvestment Plan (note 10)	41	–	–	–	41
Dividends declared per common share (\$) – \$0.42	–	(116)	–	–	(116)
	41	116	–	3	160
<b>Balance at June 19, 2010</b>	<b>1,349</b>	<b>3,887</b>	<b>–</b>	<b>4</b>	<b>5,240</b>

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

## Condensed Consolidated Balance Sheets

Unaudited (millions of Canadian dollars)	As at June 18, 2011	As at June 19, 2010	As at January 1, 2011
<b>Assets</b>			
Current Assets			
Cash and cash equivalents (note 6)	\$ 774	\$ 919	\$ 857
Short term investments	699	697	754
Accounts receivable	408	404	366
Credit card receivables (note 8)	1,974	1,883	1,997
Inventories (note 7)	1,962	1,935	1,956
Income taxes recoverable	12	–	8
Prepaid expenses and other assets	136	129	83
Assets held for sale	66	83	71
<b>Total Current Assets</b>	<b>6,031</b>	<b>6,050</b>	<b>6,092</b>
Fixed Assets	8,413	7,831	8,377
Investment Properties	73	70	74
Goodwill and Intangible Assets	1,026	1,021	1,026
Deferred Income Taxes	193	281	227
Security Deposits	183	194	354
Franchise Loans Receivable	313	336	314
Other Assets	347	340	377
<b>Total Assets</b>	<b>\$ 16,579</b>	<b>\$ 16,123</b>	<b>\$ 16,841</b>
<b>Liabilities</b>			
Current Liabilities			
Bank indebtedness	\$ –	\$ 14	\$ 10
Short term debt (note 8)	905	1,135	535
Trade payables and other liabilities	3,273	3,182	3,522
Income taxes payable	–	35	–
Provisions	75	63	62
Long term debt due within one year (note 9)	81	870	902
<b>Total Current Liabilities</b>	<b>4,334</b>	<b>5,299</b>	<b>5,031</b>
Provisions	50	44	43
Long Term Debt (note 9)	5,364	4,570	5,198
Deferred Income Taxes	26	25	35
Capital Securities	221	220	221
Other Liabilities	701	725	710
<b>Total Liabilities</b>	<b>10,696</b>	<b>10,883</b>	<b>11,238</b>
<b>Shareholders' Equity</b>			
Common Share Capital (note 10)	1,539	1,349	1,475
Retained Earnings	4,300	3,887	4,122
Contributed Surplus (note 12)	39	–	1
Accumulated Other Comprehensive Income	5	4	5
<b>Total Shareholders' Equity</b>	<b>5,883</b>	<b>5,240</b>	<b>5,603</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 16,579</b>	<b>\$ 16,123</b>	<b>\$ 16,841</b>

Contingent liabilities (note 13).

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

## Condensed Consolidated Cash Flow Statements

For the periods ended June 18, 2011 and June 19, 2010 Unaudited (millions of Canadian dollars)	2011 (12 weeks)	2010 (12 weeks)	2011 (24 weeks)	2010 (24 weeks)
<b>Operating Activities</b>				
Net earnings	\$ 197	\$ 181	\$ 359	\$ 313
Income taxes (note 4)	70	83	138	153
Net interest expense and other financing charges (note 3)	78	81	151	168
Depreciation and amortization	159	142	311	284
Income taxes paid	(55)	(56)	(96)	(156)
Interest received	26	14	36	23
Change in non-cash working capital	(17)	202	(407)	(48)
Fixed assets and other related impairments	5	36	9	42
Other	18	(7)	(1)	(11)
<b>Cash Flows from Operating Activities</b>	<b>481</b>	<b>676</b>	<b>500</b>	<b>768</b>
<b>Investing Activities</b>				
Fixed asset purchases	(161)	(183)	(316)	(320)
Short term investments	(23)	32	41	(53)
Proceeds from fixed asset sales	1	3	6	16
Franchise investments and other receivables	24	3	23	–
Security deposits	–	(5)	167	50
Other	7	8	–	(13)
<b>Cash Flows used in Investing Activities</b>	<b>(152)</b>	<b>(142)</b>	<b>(79)</b>	<b>(320)</b>
<b>Financing Activities</b>				
Bank indebtedness	–	5	(10)	4
Short term debt (note 8)	–	–	370	(90)
Long term debt				
Issued (note 9)	159	354	216	357
Retired (note 9)	(7)	(305)	(865)	(306)
Interest paid	(131)	(123)	(213)	(203)
Dividends paid (note 10)	(16)	(17)	(16)	(17)
Common shares				
Issued (note 10)	16	–	19	–
Retired (note 10)	(3)	–	(3)	–
<b>Cash Flows from (used in) Financing Activities</b>	<b>18</b>	<b>(86)</b>	<b>(502)</b>	<b>(255)</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	–	(1)	(2)	(5)
Change in Cash and Cash Equivalents	347	447	(83)	188
Cash and Cash Equivalents, Beginning of Period	427	472	857	731
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 774</b>	<b>\$ 919</b>	<b>\$ 774</b>	<b>\$ 919</b>

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

## Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

For the periods ended June 18, 2011 and June 19, 2010 (millions of Canadian dollars except where otherwise indicated)

### Note 1: Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial 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 parent is George Weston Limited which owns approximately 62.8% of the Company. The Company's ultimate parent is Wittington Investments, Limited.

The Company has two reportable operating segments: "Retail" and "Financial Services" (see note 14).

### Note 2: Significant Accounting Policies

**Statement of Compliance** The unaudited interim period condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company's 2010 annual financial statements. In addition, for supplemental annual disclosures, see note 17 of the Company's first quarter 2011 unaudited interim period condensed consolidated financial statements. An explanation of how the transition from Canadian generally accepted accounting principles ("CGAAP") to International Financial Reporting Standards ("IFRS" or "GAAP") as at January 3, 2010 ("transition date") has affected the reported financial position, financial performance and cash flows of the Company, including the mandatory exceptions and optional exemptions under IFRS 1 is provided in the first quarter report to shareholders for the 12 weeks ending March 26, 2011.

These unaudited interim period condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on July 20, 2011.

**Basis of Preparation** The unaudited interim period condensed consolidated financial statements were prepared on a historical cost basis except for certain financial instruments carried at fair value. Liabilities for cash settled share-based compensation arrangements are measured at fair value as described in note 12 and defined benefit plan assets are also recorded at fair value with the obligations related to these pension plans measured at their discounted present value.

The significant accounting policies as disclosed in the Company's first quarter 2011 unaudited consolidated financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements.

The unaudited interim period condensed consolidated financial statements are presented in Canadian dollars.

**Basis of Consolidation** The unaudited interim period condensed consolidated financial statements include the accounts of the Company and other entities that the Company controls in accordance with IAS 27 "Consolidated and Separate Financial Statements". Special Purpose Entities ("SPE") are consolidated under Standing Interpretations Committee ("SIC") Interpretation 12 "Consolidation – Special Purpose Entities", ("SIC-12"), if, based on an evaluation of the substance of its relationship with the Company and the SPE's risks and rewards, the Company concludes that it controls the SPE. SPEs controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that results in the Company receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

**Critical Accounting Judgments, Estimates and Assumptions** The preparation of the unaudited interim period condensed consolidated financial statements requires management to make various judgments, estimates and assumptions in applying the Company's accounting policies which have an effect on the reported amounts and disclosures made in the unaudited interim period condensed consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances.

Material estimates and assumptions are made with respect to establishing depreciation and amortization periods, the valuation of credit card receivables and inventories, goodwill and indefinite life intangible assets, income and other taxes, fixed asset impairment and parameters used in the measurement of employee future benefits. These estimations depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the unaudited interim period condensed consolidated financial statements. Illiquid credit markets, volatile equity, foreign currency, and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

### **Future Accounting Standards**

*Consolidated Financial Statements* On May 12, 2011, IASB issued IFRS 10, “Consolidated Financial Statements” (“IFRS 10”). This IFRS replaces portions of IAS 27, “Consolidated and Separate Financial Statements” (“IAS 27”) that addresses consolidation, and supersedes SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended for the issuance of IFRS 10 and retains guidance only for separate financial statements.

*Joint Arrangements* On May 12, 2011, the IASB issued IFRS 11, “Joint Ventures” (“IFRS 11”). IFRS 11 supersedes IAS 31, “Interest in Joint Ventures” and SIC-13, “Jointly Controlled Entities – Non Monetary Contributions by Venturers”. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, “Investments in Associates and Joint Ventures” (“IAS 28”) has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

*Disclosure of Interests in Other Entities* On May 12, 2011, the IASB issued IFRS 12, “Disclosure of Interests in Other Entities” (“IFRS 12”). This IFRS requires extensive disclosures relating to a company’s interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Company is currently assessing the impact of these new standards and amendments on its consolidated financial statements.

*Fair Value Measurement* On May 12, 2011, the IASB issued IFRS 13, “Fair Value Measurement”, which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

**Employee Benefits** On June 16, 2011 the IASB revised IAS 19, "Employee Benefits". The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

**Presentation of Financial Statements** On June 16, 2011 the IASB issued amendments to IAS 1, "Presentation of Financial Statements". The amendments enhance the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

**Financial Instruments – Disclosures** On October 7, 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011 and therefore the Company will apply the amendment in the first quarter of 2012. The Company is currently assessing the impact of the amendment on its financial statement disclosures.

**Deferred Tax – Recovery of Underlying Assets** On December 20, 2010, the IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12"), that introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. The Company has elected to account for its investment properties at cost and as such does not expect the implementation of the amendment to have a significant impact on its financial statements.

**Financial Instruments** The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2013. The Company is currently assessing the impact of the new standard on its financial statements.

### Note 3. Net Interest Expense and Other Financing Charges

For the periods ended June 18, 2011 and June 19, 2010 (millions of Canadian dollars)	2011 (12 weeks)	2010 (12 weeks)	2011 (24 weeks)	2010 (24 weeks)
Interest on long term debt	\$ 66	\$ 65	\$ 129	\$ 134
Interest cost on defined benefit obligations	21	20	42	41
Interest on borrowings related to credit card receivables	9	8	22	19
Interest expense on Franchise Trust II loans	4	4	8	8
Interest expense on financial derivative instruments	-	1	-	3
Dividends on capital securities	4	4	7	7
Capitalized interest	(1)	-	(1)	-
<b>Interest expense and other financing charges</b>	<b>103</b>	<b>102</b>	<b>207</b>	<b>212</b>
Expected return on pension plan assets	(18)	(17)	(37)	(35)
Accretion income	(5)	(4)	(9)	(8)
Interest income on financial derivative instruments	-	-	(6)	-
Short term interest income	(2)	-	(4)	(1)
<b>Interest income</b>	<b>(25)</b>	<b>(21)</b>	<b>(56)</b>	<b>(44)</b>
<b>Net interest expense and other financing charges</b>	<b>\$ 78</b>	<b>\$ 81</b>	<b>\$ 151</b>	<b>\$ 168</b>

**Note 4. Income Taxes**

The effective income tax rates for the second quarter and year-to-date 2011 were 26.2% (2010 – 31.4%) and 27.8% (2010 – 32.8%), respectively. Both the second quarter and year-to-date decreases in the effective income tax rates compared to the same periods in 2010 were primarily due to a decrease in income tax expense related to certain prior year income tax matters and further reductions in the Federal and Ontario statutory income tax rates.

**Note 5. Basic and Diluted Net Earnings per Common Share**

For the periods ended June 18, 2011 and June 19, 2010 (millions of Canadian dollars except where otherwise indicated)	2011 (12 weeks)	2010 (12 weeks)	2011 (24 weeks)	2010 (24 weeks)
Net earnings for basic earnings per share	\$ 197	\$ 181	\$ 359	\$ 313
Dividends on capital securities (note 3)	4	4	7	–
Impact of equity forwards	(1)	(3)	–	(9)
Net earnings for diluted earnings per share	\$ 200	\$ 182	\$ 366	\$ 304
Weighted average common shares outstanding (in millions)	282.0	277.2	281.3	276.9
Dilutive effect of share-based compensation (in millions)	8.9	–	7.5	–
Dilutive effect of equity forwards (in millions)	0.6	1.1	–	1.2
Dilutive effect of capital securities (in millions)	6.1	5.9	6.1	–
Dilutive effect of dividend reinvestment plan (in millions)	–	0.6	–	0.3
Dilutive effect of certain other liabilities (in millions)	0.9	0.9	0.9	0.9
Diluted weighted average common shares outstanding (in millions)	298.5	285.7	295.8	279.3
Basic net earnings per common share (\$)	\$ 0.70	\$ 0.65	\$ 1.28	\$ 1.13
Diluted net earnings per common share (\$)	\$ 0.67	\$ 0.64	\$ 1.24	\$ 1.09

For the second quarter of 2011, 2,797,940 (2010 – 720,140) and 3,455,574 (2010 – 6,527,014) year-to-date potentially dilutive instruments were excluded from the computation of diluted net earnings per common share, as they were anti-dilutive.

**Note 6. Cash and Cash Equivalents**

The components of cash and cash equivalents were as follows:

(millions of Canadian dollars)	As at June 18, 2011	As at June 19, 2010	As at January 1, 2011
Cash	\$ 96	\$ 2	\$ 75
Cash equivalents:			
Bankers' acceptances	327	380	240
Government treasury bills	74	257	224
Bank term deposits	122	110	200
Corporate commercial paper	95	132	113
Other	60	38	5
Cash and cash equivalents	\$ 774	\$ 919	\$ 857

As at June 18, 2011, USD \$1,046 million (June 19, 2010 – USD \$980 million, January 1, 2011 – USD \$1,033 million) was included in cash and cash equivalents, short term investments and security deposits.

In the second quarter of 2011, the Company recognized an unrealized foreign currency exchange loss of \$2 million (2010 – \$4 million) and \$20 million (2010 – \$29 million) year-to-date as a result of translating its United States dollar denominated cash and cash equivalents, short term investments and security deposits, of which a loss of nil (2010 – \$1 million) and \$2 million (2010 – \$5 million) year-to-date related to cash and cash equivalents, which was partially offset in operating income by corresponding gains on cross currency swaps.

#### **Note 7. Inventories**

Cost of merchandise inventory entirely relates to the Retail segment. For inventories recorded as at June 18, 2011, the Company recorded \$22 million (June 19, 2010 – \$16 million) as an expense for the write-down of inventories below cost to net realizable value. The write-down is included in cost of merchandise inventories sold in the consolidated statements of earnings. There were no reversals of previously recorded write-downs of inventories during the periods ended June 18, 2011 and June 19, 2010.

#### **Note 8. Short Term Debt**

President's Choice Bank ("PC Bank") participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to independent trusts pursuant to co-ownership agreements. PC Bank purchases receivables from and sells receivables to the trusts from time to time depending on PC Bank's financing requirements. During the second quarter of 2011, PC Bank securitized nil (2010 – nil) and \$370 million (2010 – nil) year-to-date of credit card receivables and repurchased nil (2010 – nil) during the second quarter of 2011 and \$500 million (2010 – \$90 million) year-to-date of co-ownership interests in the securitized receivables from independent trusts (see note 9). The repurchase was related to the March 17, 2011 maturity of five-year \$500 million senior and subordinated notes issued by *Eagle Credit Card Trust* (see note 9).

Due to the retention of substantially all of the risks and rewards on these assets, the Company, through PC Bank, continues to recognize these assets within credit card receivables and the transfers are accounted for as secured financing transactions. The associated liability secured by these assets is included in short term debt and long term debt (see note 9) and is carried at amortized cost.

As at June 18, 2011, \$905 million (June 19, 2010 – \$1,135 million; January 1, 2011 – \$535 million) was outstanding relating to the liability of independent credit card trusts. In addition to PC Bank's securitized receivables, the independent trusts' recourse is limited to standby letters of credit arranged by the Company as at June 18, 2011 of \$81 million (June 19, 2010 – \$103 million; January 1, 2011 – \$48 million) based on a portion of the securitized amount.

#### **Note 9. Long Term Debt**

During the second quarter of 2011, the \$475 million revolving committed credit facility that is the source of funding to the independent trust was renewed and extended for a 3-year period. As a result of the renewal, the Company's credit enhancement was reduced from 15% to 10%. Other terms and conditions remain substantially the same.

As at June 18, 2011, PC Bank had sold through independent brokers \$197 million (June 19, 2010 – nil; January 1, 2011 – \$18 million) of outstanding Guaranteed Investment Certificates, of which \$47 million (June 19, 2010 – nil; January 1, 2011 – \$5 million) was recorded as long term debt due within one year.

During the first quarter of 2011, a \$350 million 6.50% medium term note due January 19, 2011 and the \$500 million senior and subordinated notes due March 17, 2011 issued by *Eagle Credit Card Trust* matured and were repaid.

As at June 18, 2011 and June 19, 2010, the Company had not drawn on the \$800 million committed credit facility described in note 14 to the Company's 2010 Annual Report Financial Review.

During the second quarter of 2010, the Company issued \$350 million principal amount of unsecured Medium Term Notes, Series 2-B pursuant to its Medium Term Notes, Series 2 program. The Series 2-B notes pay a fixed rate of interest of 5.22% payable semi-annually commencing on December 18, 2010 until maturity on June 18, 2020. The notes are subject to certain covenants and are unsecured obligations of Loblaw and rank equally with all the unsecured indebtedness that has not been subordinated. The notes may be redeemed at the option of the Company in whole at any time or in part from time to time upon not less than 30 days and not more than 60 days notice to the holders of the notes.

During the second quarter of 2010, the \$300 million, 7.10% medium term note matured and was repaid.

In 2008, the Company entered into fixed cross currency swaps to exchange \$296 million Canadian dollars to \$300 million USD which mature by 2015 and were partially designated as a cash flow hedge of the Company's USD private placement notes. In the first quarter of 2011, the designated swap was no longer classified as a cash flow hedge and as a result, the fair value changes are recorded in operating income. Amounts remaining in accumulated other comprehensive income will be reclassified to net earnings as the hedged debt matures. As at June 18, 2011, \$294 million (June 19, 2010 – \$307 million; January 1, 2011 – \$300 million) of USD private placement notes was recorded as long term debt.

### **Note 10. Common Share Capital**

At the end of the second quarter of 2011, the Company's outstanding common share capital was comprised of common shares, an unlimited number of which were authorized and 282,246,777 (June 19, 2010 – 277,308,711; January 1, 2011 – 280,578,130) were issued and outstanding.

**Dividends (\$)** During the second quarter of 2011, the Company's Board declared dividends of \$0.21 (2010 – \$0.21) per common share with a payment date of July 1, 2011 and \$0.42 (2010 – \$0.42) year-to-date per common share and \$0.37 (2010 – \$0.37) per Second Preferred Shares, Series A with a payment date of July 31, 2011 and \$0.74 (2010 – \$0.74) year-to-date per Second Preferred Shares, Series A. For financial statement presentation purposes, second preferred share dividends of \$4 million (2010 – \$4 million) and \$7 million (2010 – \$7 million) are included for the twelve and twenty-four weeks ended June 18, 2011, respectively, as a component of net interest expense and other financing charges in the consolidated statements of earnings (see note 3). Subsequent to the end of the second quarter, the Board declared a quarterly dividend of \$0.21 per common share payable October 1, 2011, and \$0.37 per Second Preferred Share, Series A, payable October 30, 2011.

**Dividend Reinvestment Plan ("DRIP")** During the second quarter of 2011, the Company issued 1,142,380 (2010 – 1,120,453) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in incremental equity to the Company of approximately \$43 million (2010 – \$41 million). During the first quarter of 2011, the Board approved the discontinuance of the DRIP after the dividend payment on April 1, 2011. Since the inception of the DRIP in 2009, approximately \$330 million in total common share equity was raised.

**Normal Course Issuer Bid ("NCIB")** During the second quarter of 2011, the Company renewed its NCIB to purchase on the Toronto Stock Exchange, or enter into equity derivatives to purchase, up to 14,096,437 (2010 – 13,865,435) of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, the Company may purchase its shares at the then market price of such shares. During the second quarter of 2011, the Company purchased for cancellation 80,000 (2010 – nil) of its common shares at an average market price of \$40.92 (2010 – nil) including commissions.

## Note 11. Post-Employment and Other Long Term Employee Benefits

The post-employment benefit cost recognized in earnings before income taxes was \$30 million (2010 – \$30 million) for the second quarter of 2011 and \$65 million (2010 – \$60 million) year-to-date. The post-employment benefit cost included costs for the Company's post-employment defined benefit plans, defined contribution pension plans and multi-employer pension plans. The other long term employee benefits cost recognized in earnings before income taxes was \$1 million (2010 - \$8 million) for the second quarter of 2011 and \$7 million (2010 – \$12 million) year-to-date, which included costs for the Company's long term disability plan. Post-employment and other long term employee benefit costs of \$3 million (2010 - \$3 million) was included in net interest expense and other financing charges in the second quarter of 2011 and \$5 million (2010 – \$6 million) year-to-date. Actuarial losses before tax for post-employment benefits of \$91 million (2010 – \$66 million) for the second quarter of 2011 and \$85 million (2010 – \$109 million) year-to-date, were recognized in other comprehensive loss. These losses were primarily due to decreases in the discount rate and lower than expected returns on assets.

## Note 12. Share-Based Compensation

The Company's net share-based compensation expense recognized in operating income related to its stock option and Restricted Share Unit ("RSU") plans, including Glenhuron Bank Limited's ("Glenhuron"), a wholly owned subsidiary of the Company, equity forwards was:

For the periods ended June 18, 2011 and June 19, 2010 (millions of Canadian dollars)	2011 (12 weeks)	2010 (12 weeks)	2011 (24 weeks)	2010 (24 weeks)
Stock option plan expense	\$ 5	\$ 9	\$ 3	\$ 20
Equity forwards (income) expense	(1)	(4)	2	(10)
RSU plan expense	11	5	3	6
Net share-based compensation expense	\$ 15	\$ 10	\$ 8	\$ 16

**Stock Option Plan** Commencing February 22, 2011, the Company amended its stock option plan whereby the right to receive a cash payment in lieu of exercising an option for shares was removed. As a result, \$42 million previously recorded in trade payables and other liabilities and other liabilities was reclassified to contributed surplus.

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

Number of Options	June 18, 2011 (12 weeks)	June 19, 2010 (12 weeks)	June 18, 2011 (24 weeks)	June 19, 2010 (24 weeks)
Outstanding options, beginning of period	12,084,762	9,835,263	9,320,865	9,207,816
Granted	45,980	10,525	3,141,247	2,489,095
Exercised	(531,258)	(125,195)	(606,267)	(424,975)
Forfeited	(203,752)	(135,587)	(460,113)	(988,758)
Expired	–	–	–	(698,172)
Outstanding options, end of period	11,395,732	9,585,006	11,395,732	9,585,006
Share appreciation value paid (millions of Canadian dollars)	\$ –	\$ 1	\$ –	\$ 3

45,980 (2010 – 10,525) stock options were granted in the second quarter of 2011 at an exercise price of \$41.52 (2010 – \$37.92) and nominal fair value (2010 – nominal). In addition, in the second quarter of 2011, the Company issued 531,258 and 606,267 year-to-date common shares on the exercise of stock options and received cash consideration of \$16 million and \$19 million year-to-date.

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The assumptions used to measure the fair value of options granted during the second quarter of 2011 under the Black-Scholes model at the grant date were as follows:

	June 18, 2011
Expected dividend yield	2.1%
Expected share price volatility	22.2% – 24.6%
Risk-free interest rate	2.3% – 2.8%
Expected life of options	4.4 – 6.4 years

For the options outstanding at the periods ended as indicated, the assumptions used to measure the fair value of options under the Black-Scholes model were as follows:

	June 19, 2010	January 1, 2011
Expected dividend yield	2.1%	2.1%
Expected share price volatility	17.0% – 28.1%	16.0% – 27.0%
Risk-free interest rate	0.8% – 2.8%	0.7% – 2.6%
Expected life of options	0.4 – 6.4 years	0.2 – 6.4 years
Weighted average exercise price	\$38.32	\$38.56

The expected dividend yield is estimated based on the annual dividend prior to the balance sheet date and the closing share price as at the balance sheet date.

The expected share price volatility is estimated based on the Company's historical volatility over a period consistent with the expected life of the options.

The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the reporting date for a term to maturity equal to the expected life of the options.

The effect of expected exercise of options prior to expiry is incorporated into the weighted averaged expected life of the options, which is based on historical experience and general option holder behaviour.

Estimated forfeiture rates are incorporated into the measurement of fair value. The forfeiture rate applied during the quarter was 16.2% (June 19, 2010 – 14.6%; January 1, 2011 – 16.2%).

(millions of Canadian dollars)	As at June 18, 2011	As at June 19, 2010	As at January 1, 2011
Carrying amount of stock options:			
Trade payables and other liabilities	\$ –	\$ 28	\$ 30
Other liabilities	–	11	16
Contributed surplus	38	–	–
	<b>\$ 38</b>	<b>\$ 39</b>	<b>\$ 46</b>

**Equity Forward Contracts** A summary of Glenhuron's equity forward contracts is as follows:

	As at June 18, 2011	As at June 19, 2010	As at January 1, 2011
Outstanding contracts (in millions)	1.5	1.5	1.5
Average forward price per share (\$)	\$ 56.36	\$ 66.73	\$ 56.26
Interest expense per share (\$)	\$ 0.14	\$ 10.51	\$ 0.04
Interest and unrealized market loss recorded in trade payables and other liabilities (millions of Canadian dollars)	\$ 26	\$ 40	\$ 24

**RSU Plan** The following is a summary of the Company's RSU plan activity:

	June 18, 2011 (12 weeks)	June 19, 2010 (12 weeks)	June 18, 2011 (24 weeks)	June 19, 2010 (24 weeks)
Number of Awards				
RSUs, beginning of period	1,104,308	1,097,910	1,045,346	973,351
Granted	4,617	1,469	352,371	372,725
Settled	(53,454)	(8,072)	(321,785)	(171,764)
Forfeited	(10,744)	(9,398)	(31,205)	(92,403)
RSUs, end of period	1,044,727	1,081,909	1,044,727	1,081,909
RSUs, settled (millions of Canadian dollars)	\$ 2	\$ -	\$ 12	\$ 6

(millions of Canadian dollars)	As at June 18, 2011	As at June 19, 2010	As at January 1, 2011
Carrying amount of RSU liability recorded in:			
Trade payables and other liabilities	\$ 10	\$ 10	\$ 12
Other liabilities	6	7	12
	\$ 16	\$ 17	\$ 24
Intrinsic value of vested RSUs	\$ 17	\$ 19	\$ 26

### Note 13. Contingent Liabilities

The Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business including product liability, labour and employment, regulatory and environmental claims. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims, 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.

**Legal Proceedings** The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings and claims is uncertain. However, based on information currently available, these proceedings and claims, individually and in the aggregate, are not expected to have a material impact on the Company.

**Tax and Regulatory** The Company is subject to tax audits from various government and regulatory agencies on an on-going basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or change legislation, which could lead to reassessments. These reassessments may have a material impact on the Company in future periods.

Subsequent to the second quarter of 2011, the Company received an update to the proposed reassessment from the Quebec Revenue Agency with regard to the Company's entitlement to certain previously claimed commodity tax credits. The Company does not expect the final assessment to result in a material impact to the Company's financial statements in future periods.

#### Note 14. Segment Information

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

- The **Retail** segment, which consists primarily of food and also includes drugstore, gas bars, apparel and other general merchandise; and
- The **Financial Services** segment, which includes credit card services, a retail loyalty program, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecom.

The Company's chief operating decision maker evaluates segment performance on the basis of operating income, as reported to internal management, on a periodic basis. This performance measure is used as it is considered to be the most relevant in evaluating the results of the segments relative to other entities that operate within these industries.

Segment results and assets include items directly attributable to a segment as well as items that can be allocated on a reasonable basis. There are varying levels of integration between the Retail and Financial Services segments. This integration includes shared expenses relating to the Company's brands, loyalty program, store displays and certain administrative services. Intersegment transactions are accounted for at the transaction amount as if those transactions were with external parties.

Information regarding the operations of each reportable operating segment is included below.

(millions of Canadian dollars)	June 18, 2011 (12 weeks)	June 19, 2010 (12 weeks)	June 18, 2011 (24 weeks)	June 19, 2010 (24 weeks)
<b>Revenue</b>				
Retail	\$ 7,157	\$ 7,146	\$ 13,914	\$ 13,937
Financial services <sup>(1)</sup>	121	123	236	245
Consolidated	\$ 7,278	\$ 7,269	\$ 14,150	\$ 14,182

(1) Included in financial services revenue is \$56 (June 19, 2010 - \$60) during the second quarter of 2011 and \$116 (2010 - \$125) year-to-date of interest income.

(millions of Canadian dollars)	June 18, 2011 (12 weeks)	June 19, 2010 (12 weeks)	June 18, 2011 (24 weeks)	June 19, 2010 (24 weeks)
<b>Depreciation and Amortization</b>				
Retail	\$ 157	\$ 141	\$ 308	\$ 283
Financial services	2	1	3	1
Consolidated	\$ 159	\$ 142	\$ 311	\$ 284

(millions of Canadian dollars)	June 18, 2011 (12 weeks)	June 19, 2010 (12 weeks)	June 18, 2011 (24 weeks)	June 19, 2010 (24 weeks)
<b>Operating Income</b>				
Retail	\$ 333	\$ 313	\$ 618	\$ 578
Financial services	12	32	30	56
Consolidated	\$ 345	\$ 345	\$ 648	\$ 634

(millions of Canadian dollars)	June 18, 2011 (12 weeks)	June 19, 2010 (12 weeks)	June 18, 2011 (24 weeks)	June 19, 2010 (24 weeks)
<b>Net Interest Expense and Other Financing Charges</b>				
Retail	\$ 68	\$ 73	\$ 128	\$ 149
Financial services	10	8	23	19
Consolidated	\$ 78	\$ 81	\$ 151	\$ 168

(millions of Canadian dollars)	As at June 18, 2011	As at June 19, 2010	As at January 1, 2011
<b>Total Assets</b>			
Retail	\$ 14,441	\$ 14,119	\$ 14,569
Financial services	2,138	2,004	2,272
Consolidated	\$ 16,579	\$ 16,123	\$ 16,841

(millions of Canadian dollars)	June 18, 2011 (12 weeks)	June 19, 2010 (12 weeks)	June 18, 2011 (24 weeks)	June 19, 2010 (24 weeks)
<b>Additions to Fixed Assets and Goodwill</b>				
Retail	\$ 160	\$ 182	\$ 314	\$ 318
Financial services	1	1	2	2
Consolidated	\$ 161	\$ 183	\$ 316	\$ 320

## Note 15. Transition to IFRS

The Company's audited annual consolidated financial statements for the year ended December 31, 2011 will be the first audited annual consolidated financial statements that will be prepared in accordance with the requirements of IFRS including the application of IFRS 1. For the overall impact of IFRS on the opening balance sheet as at January 3, 2010, including a discussion of the optional exemptions taken and the applicable mandatory exceptions, refer to the first quarter report to shareholders for the 12 weeks ending March 26, 2011.

The significant accounting policies described in note 2 and in the Company's first quarter 2011 consolidated financial statements have been applied in preparing the unaudited interim period condensed consolidated financial statements for the period ended June 18, 2011, the comparative information for the period ended June 19, 2010 and the financial statements for the year ended January 1, 2011.

An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position and financial performance is set out in the following reconciliations and the explanatory notes that accompany the reconciliations. Reconciliations of the consolidated balance sheets, consolidated statements of net earnings and consolidated statements of comprehensive income for the respective periods noted begin on page 50. Changes to cash flows were not material as a result of the conversion to IFRS.

IFRS 1 requires an entity to reconcile equity, net earnings and comprehensive income from CGAAP to IFRS for prior periods. The following represents the reconciliations for the respective periods noted for equity, net earnings and comprehensive income.

**Reconciliation of Equity**

(millions of Canadian dollars)	Explanatory Notes	As at June 19, 2010	As at January 1, 2011
<b>Total Equity - CGAAP</b>		<b>\$ 6,510</b>	<b>\$ 6,880</b>
Differences increasing (decreasing) reported shareholders' equity			
Minority interest presentation	a	26	41
Share-based payments	b	(3)	(2)
Fixed assets	c	(60)	(71)
Leases	d	(30)	(31)
Employee benefits	e	(375)	(370)
Borrowing costs	f	(207)	(216)
Consolidations	g	(76)	(68)
Impairment of assets	h	(182)	(146)
Provisions	i	(17)	(15)
Financial instruments	j	(326)	(374)
Customer loyalty programs	k	(20)	(25)
<b>Total Equity - IFRS</b>		<b>\$ 5,240</b>	<b>\$ 5,603</b>

**Reconciliation of Net Earnings**

(millions of Canadian dollars)	Explanatory Notes	June 19, 2010 (12 weeks)	For the periods ended June 19, 2010 (24 weeks)	January 1, 2011 (52 weeks)
<b>Net Earnings - CGAAP</b>		<b>\$ 180</b>	<b>\$ 317</b>	<b>\$ 681</b>
Differences increasing (decreasing) reported net earnings				
Minority interest presentation	a	8	4	18
Share-based payments	b	1	3	3
Fixed assets	c	(2)	(2)	(13)
Leases	d	-	(3)	(4)
Employee benefits	e	5	11	25
Borrowing costs	f	(4)	(8)	(17)
Consolidations	g	(6)	(6)	3
Impairment of assets	h	4	5	41
Provisions	i	-	1	3
Financial instruments	j	(1)	(3)	(54)
Customer loyalty programs	k	(4)	(6)	(11)
<b>Net Earnings - IFRS</b>		<b>\$ 181</b>	<b>\$ 313</b>	<b>\$ 675</b>

## Reconciliation of Comprehensive Income

(millions of Canadian dollars)	Explanatory Notes	For the periods ended		
		June 19, 2010 (12 weeks)	June 19, 2010 (24 weeks)	January 1, 2011 (52 weeks)
Comprehensive Income - CGAAP		\$ 180	\$ 312	\$ 674
Differences increasing (decreasing) reported comprehensive income				
Differences in net earnings		1	(4)	(6)
Available-for-sale financial assets		(3)	(3)	(1)
Unrealized cash flow hedges	j	5	11	12
Actuarial gains (losses) on pension plans, net of tax	e	(49)	(81)	(90)
Comprehensive Income – IFRS		\$ 134	\$ 235	\$ 589

## Explanatory Notes for Reconciliations of Equity, Net Earnings, Comprehensive Income and Balance Sheet Items

### a. Changes in Presentation

**Investment Property** Under IFRS, properties held to earn rental income or for capital appreciation, or both, are presented separately from fixed assets as investment property. Accordingly, properties that met the definition of investment property amounting to \$70 million and \$74 million, net of impairment, as at June 19, 2010 and January 1, 2011, respectively, were reclassified from fixed assets to investment property in the consolidated balance sheet.

**Income Taxes** IFRS requires deferred tax assets and liabilities to be presented in the balance sheet as non-current assets and liabilities. As a result, current future income tax assets of \$45 million and \$39 million were reclassified to non-current deferred tax assets as at June 19, 2010 and January 1, 2011, respectively. As part of the adoption of IFRS, the term “future income taxes” has been replaced by the term “deferred income taxes”.

**Provisions** Under IFRS, current and long-term provisions are accounted for and disclosed separately from accounts payable and accrued liabilities and other liabilities. Provisions were reclassified from accounts payable and accrued liabilities and other liabilities to current provisions of \$59 million and \$62 million and long-term provisions of \$23 million and \$22 million as at June 19, 2010 and January 1, 2011, respectively.

**Minority Interest** Under IFRS, minority interest is referred to as non-controlling interest and will be presented as a component of equity instead of as a liability. On the statement of earnings, minority interests will be presented as an allocation of net earnings rather than as a deduction in the calculation of net earnings.

**Consolidated Cash Flow Statement** The Company has chosen to separately present interest and dividends received and paid on the cash flow statement.

### b. IFRS 2, “Share-Based Payment”

#### (i) Cash-settled share-based payments

Prior to February 22, 2011, the Company maintained various cash-settled share-based payment arrangements. Under both IFRS and CGAAP, liabilities for cash-settled share-based payment awards are measured at the grant date and are remeasured at each reporting date until the settlement date. However, the Company measured the liability for cash-settled awards at intrinsic value under CGAAP, whereas IFRS requires the liability to be measured at fair value. Under IFRS, the related liability is adjusted to reflect the fair value of the outstanding cash-settled share-based payments.

**(ii) Awards subject to graded vesting and forfeitures**

Under IFRS, for share-based payment awards with graded vesting, each tranche of the award is valued separately. Under CGAAP, the value of these awards was determined for each grant as a whole. Additionally, under IFRS, an estimate of the impact of forfeitures is calculated at the grant date and is revised if subsequent information indicates that it is appropriate to do so. Under CGAAP the Company followed a policy of recognizing forfeitures as they occurred.

As a result of the changes described above, the Company's liabilities as at June 19, 2010 and January 1, 2011 and net earnings in the period ended June 19, 2010 and in the year ended January 1, 2011 were higher under IFRS compared to CGAAP.

The cumulative impact arising from the changes described above is summarized as follows:

**Consolidated Statements of Earnings**

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Operating income	\$ 1	\$ 4	\$ 6
Income taxes	–	1	3
Net earnings	1	3	3

**Consolidated Balance Sheets**

Increase (Decrease) (millions of Canadian dollars)	As at	
	June 19, 2010	January 1, 2011
Deferred income tax assets	\$ 2	\$ –
Trade payables and other liabilities	26	25
Other liabilities	(21)	(23)
Retained earnings	(3)	(3)
Contributed surplus	–	1

**c. IAS 16, “Property, Plant and Equipment”****(i) Component accounting and derecognition of replaced parts**

Under IFRS, when a fixed asset comprises of individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting). In addition, under IFRS, when an individual part of a fixed asset is replaced, the carrying amount of the replacement part is capitalized and the carrying amount of the replaced part is derecognized. Under CGAAP, the Company did not apply component accounting to the degree required by IFRS, and the Company did not derecognize the carrying value of replaced parts.

**(ii) Depreciation of site dismantling and restoration costs**

Under IFRS, when the cost of land includes costs for site dismantling and restoration, this portion of the land is depreciated over the period of time in which the benefits will be obtained. Under CGAAP, costs were not depreciated.

The cumulative impact arising from the changes described above is summarized as follows:

#### Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Operating income	\$ (2)	\$ (2)	\$ (18)
Income taxes	–	–	(5)
Net earnings	(2)	(2)	(13)

#### Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at	
	June 19, 2010	January 1, 2011
Fixed assets	\$ (69)	\$ (85)
Deferred income tax assets	8	12
Deferred income tax liabilities	(1)	(2)
Retained earnings	(60)	(71)

#### d. IAS 17, “Leases” (“IAS 17”)

The principles in IAS 17 underlying the classification and recognition of leases as finance leases (referred to as capital leases under CGAAP) or operating leases are consistent with CGAAP although there are certain differences in the application of the requirements. IFRS provides additional indicators of a finance lease that were not provided under CGAAP.

##### (i) Land and Building Leases

Both CGAAP and IFRS consider the leasehold interests in land and building separately for the purpose of classification of leases; however IFRS requires the allocation of minimum lease payments between the land and building elements of a lease to be in proportion to the relative fair values of the leasehold interests in the land and building. Under CGAAP, the allocation is based on the fair value of the land and building.

##### (ii) Sale and Leaseback Transactions

In addition, IFRS permits the immediate recognition of gains and losses on sale leaseback transactions which result in an operating lease, provided the transaction is established at fair value. Under CGAAP, gains and losses are deferred and amortized in proportion to the lease payments over the lease term, unless the asset sold in the sale leaseback transaction is impaired in which case the loss is recognized immediately.

The cumulative impact arising from the changes described above is summarized as follows:

#### Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Operating income	\$ 3	\$ 2	\$ 9
Net interest expense and other financing charges	3	6	14
Income taxes	–	(1)	(1)
Net earnings	–	(3)	(4)

## Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at	
	June 19, 2010	January 1, 2011
Fixed assets	\$ 136	\$ 139
Deferred income tax assets	4	4
Trade payables and other liabilities	(1)	(1)
Long term debt due within one year	7	8
Long term debt	172	175
Deferred income tax liabilities	(6)	(6)
Other liabilities	(2)	(2)
Retained earnings	(30)	(31)

**e. IAS 19, "Employee Benefits"****(i) Actuarial gains and losses for defined benefit plans**

Under IFRS, the Company recognizes actuarial gains and losses for defined benefit post-employment benefit plans in OCI in the period in which they arise, and the recognized actuarial gains and losses are presented in retained earnings. In addition, the Company recognizes actuarial gains and losses for other-long term employee benefits immediately in net earnings. Under CGAAP, actuarial gains and losses for post-employment defined benefit plans were deferred and were subject to amortization under the 'corridor method', and actuarial gains and losses for other-long term employee benefits were deferred and were amortized over a period that was linked to the type of benefit, which generally was three years.

As a result of retrospective application of these accounting policies, at the transition date, all previously unrecognized actuarial gains and losses under CGAAP were recognized by decreasing opening retained earnings.

For post-employment defined benefit plans, the unrecognized actuarial gains and losses exceeding the corridor method that were recognized in net earnings under CGAAP were reversed, and all actuarial gains and losses arising in the period were recognized in other comprehensive income.

For other long-term employee benefits, the actuarial gains and losses arising in the period that were deferred under CGAAP were recognized in net earnings.

**(ii) Past service cost for defined benefit plans**

Under IFRS, past service cost arising from benefit improvements is recognized on a straight-line basis over the vesting period until the benefits become vested or, if the benefits vest immediately, the expense is recognized immediately in net earnings.

Under CGAAP, the Company amortized past service costs on a straight-line basis over the expected average remaining service period of active employees under the plan, which is a longer period than the vesting period.

For unrecognized past service cost at the transition date that related to vested benefits, the unrecognized amount was recognized as an adjustment to decrease opening retained earnings. In addition, the amortization of past service cost for benefits that were vested at the transition date was reversed under IFRS.

For unrecognized past service cost at the transition date that related to unvested benefits, an adjustment was recorded to decrease the unrecognized amount that would have existed had the IFRS policy always been applied. In addition, the amortization of past service cost in net earnings was increased to reflect the amortization of the unrecognized amount over the shorter vesting period.

### **(iii) Measurement date**

Under CGAAP, the Company's policy was to measure its defined benefit obligations and related plan assets at September 30 of each year. IFRS requires that the defined benefit obligation and the fair value of plan assets be determined with sufficient regularity, such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date. As a result, the Company measured its defined benefit obligations and plan assets at the transition date and at the end of the comparative annual period.

### **(iv) Attribution of post-employment health and dental benefits**

The Company offers post-employment medical benefits, including health and dental benefits, for which employees are required to meet certain eligibility requirements, such as a specified number of consecutive years of service and or continuing to work until a specified age. Under CGAAP, the Company recognized an obligation and expense from the date of hire, and the obligation and expense were recognized on a straight-line basis until the eligibility criteria were met.

Under IFRS, the Company begins recognizing an obligation and expense when service first leads to benefits under the plan, and the obligation and expense are recognized on a straight-line basis until the eligibility criteria are met. The date when service first leads to benefits may be later than the date of hire, resulting in attribution of the obligation at a later date under IFRS and recognition of the obligation and expense over a shorter period. The defined benefit obligation as of January 3, 2010 reflects this change, with the resulting decrease in the defined benefit obligation being recognized in opening retained earnings.

### **(v) Asset ceiling and recognition of additional minimum liability**

The Company has certain funded post-employment defined benefit plans for which the fair value of plan assets exceeds the defined benefit obligation. Under both CGAAP and IFRS, recognition of the net defined benefit asset is limited to the present value of the future economic benefits that the Company expects to realize from refunds from the plan or reductions in future contributions (the "asset ceiling").

The methodology for calculating the asset ceiling differs under IFRS, and in general, the asset ceiling is lower under IFRS than under CGAAP. In addition, the Company recognizes changes in the asset ceiling under IFRS in other comprehensive income, whereas under CGAAP, changes in the asset ceiling were recognized in net earnings.

Under IFRS, when the Company has an obligation to make future contributions into plans in respect of services already received, a liability is recognized to the extent that the contributions will increase an existing net defined benefit asset (surplus) or will result in a net defined benefit asset (surplus) in the future, and the benefit of the surplus or expected future surplus will not be fully available as a refund from the plan or a reduction in future contributions. The Company recognizes changes in the additional minimum liability under IFRS in other comprehensive income. No such liability is recognized under CGAAP.

As a result of the above requirements, at January 3, 2010, the Company recognized a valuation allowance and an additional minimum liability, with the corresponding adjustments recognized in opening retained earnings.

For the year ended January 1, 2011, under IFRS the Company recognized an increase in the valuation allowance which was recognized in other comprehensive income. The Company reversed the change in the valuation that was recognized in net earnings under CGAAP, resulting in an increase in net earnings of that amount. In addition, at January 1, 2011, the Company recognized an increase in the additional minimum liability, and the change in the liability was recognized in other comprehensive income.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

The impacts arising from the changes described above are summarized as follows:

Consolidated Statements of Net Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Operating income	\$ 9	\$ 21	\$ 47
Net interest expense and other financing charges	3	6	13
Income taxes	1	4	9
Net earnings	5	11	25

Consolidated Statements of Comprehensive Income

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Other comprehensive income, net of income taxes	\$ (49)	\$ (81)	\$ (90)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at June 19, 2010	As at January 1, 2011
Deferred income tax assets	\$ 114	\$ 113
Other assets	(332)	(350)
Deferred income tax liabilities	(17)	(17)
Other liabilities	174	150
Retained earnings	(375)	(370)

**f. IAS 23, "Borrowing Costs"**

The Company capitalized interest as part of the cost of qualifying assets under CGAAP; however, the capitalization methodology under CGAAP was not the same as that under IFRS.

The Company has elected to apply the requirements of IAS 23 prospectively from the transition date. As a result, the Company derecognized the carrying amount of capitalized interest under CGAAP for qualifying assets to which IAS 23 has not been applied retrospectively. As such, the Company capitalizes borrowing costs for qualifying assets for which the commencement date for capitalization is on or after the transition date.

The impact arising from the change described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Operating income	\$ 1	\$ 1	\$ 1
Net Interest expense and other financing charges	5	10	21
Income taxes	–	(1)	(3)
Net earnings	(4)	(8)	(17)

## Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at	
	June 19, 2010	January 1, 2011
Fixed assets	\$ (248)	\$ (259)
Deferred income tax assets	20	22
Deferred income tax liabilities	(21)	(21)
Retained earnings	(207)	(216)

### g. IAS 27, “Consolidated and Separate Financial Statements” and Standing Interpretations Committee 12, “Consolidation – Special Purpose Entities” (“SIC-12”)

**Consolidation and deconsolidation** Under IAS 27 and SIC-12, consolidation is assessed based on the control model and IFRS does not include the concept of a variable interest entity. Accordingly, the Company is no longer required to consolidate certain independent franchisees and other entities subject to warehouse and distribution service agreements that were previously consolidated under CGAAP pursuant to the requirements of Accounting Guideline 15, “Consolidation of Variable Interest Entities”. The independent funding trust through which franchisees obtain financing and *Eagle Credit Card Trust*, the independent credit card trust that finances certain PC Bank credit card receivables, are subject to consolidation under IFRS based on the indicators of control in SIC-12. As a result, the Company was required to re-measure the initial consideration received from each independent franchisee in the form of a loan receivable to exclude the benefit of the credit enhancement provided to the independent funding trust by the Company. The consolidation of *Eagle Credit Card Trust* had the effect of decreasing net earnings in the twelve and twenty-four weeks ended June 19, 2010 and in the year ended January 1, 2011.

The impact arising from the change described above is summarized as follows:

### Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended	24 Weeks Ended	52 Weeks Ended
	June 19, 2010	June 19, 2010	January 1, 2011
Operating income	\$ 3	\$ 15	\$ 45
Net Interest expense and other financing charges	10	22	47
Income taxes	(1)	(1)	(5)
Net earnings	(6)	(6)	3

## Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at	
	June 19, 2010	January 1, 2011
Cash and cash equivalents	\$ (39)	\$ (75)
Short term investments	30	19
Accounts receivable	117	118
Credit card receivables	500	1,100
Inventories	(150)	(158)
Income taxes recoverable	–	6
Prepaid expenses and other assets	2	2
Fixed assets	(186)	(196)
Goodwill and intangible assets	(3)	(3)
Deferred income tax assets	40	39
Franchise loans receivable	391	399
Other assets	41	94
Bank indebtedness	6	7
Trade payables and other liabilities	103	114
Income taxes payable	5	–
Provisions	2	1
Long term debt due within one year	460	461
Long term debt	229	810
Other liabilities	6	3
Deferred income tax liabilities	8	17
Minority interests	(26)	(41)
Retained earnings	(50)	(27)

**h. IAS 36, “Impairment of Assets”**

IFRS requires that assets be tested for impairment at the level of a cash generating unit (“CGU”), which is defined as the smallest group of assets that generate independent cash inflows. Under IFRS, the Company has determined that the predominant CGU is an individual retail location. Under CGAAP, definite life assets were grouped together in asset groups defined as the lowest level of assets and liabilities for which identifiable cash flows were largely independent of the cash flows of other assets and liabilities. As a result, under this test when stores were largely dependent on each other, the stores were grouped together by primary market areas. In addition, IFRS permits the reversal of an impairment loss recognized in prior periods for assets other than goodwill. CGAAP did not permit these reversals.

The methodology under IFRS to establish whether an impairment loss should be recognized is based on whether the recoverable amount of the individual asset or CGU is less than the carrying amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. Under IFRS, value in use is based on discounted cash flows. Under CGAAP impairment was evaluated using a two-step process whereby the recoverable amount was first assessed on an undiscounted basis. If the recoverable amount was less than its carrying value, then the impairment loss measured and recognized based on the fair value of the asset or asset group.

As at the transition date, the Company reviewed its tangible and intangible assets to determine whether there were indicators that these assets or CGUs were impaired or whether there were indications necessitating a reversal of impairments previously recorded. An impairment review under the IFRS methodology was also performed for the period ended June 19, 2010 and for the year ended January 1, 2011.

The impact arising from the changes described above is summarized as follows:

#### Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Operating income	\$ 4	\$ 6	\$ 54
Income taxes	–	1	13
Net earnings	4	5	41

#### Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	June 19, 2010	As at January 1, 2011
Assets held for sale	\$ –	\$ (2)
Fixed assets	(234)	(184)
Investment properties	(15)	(15)
Deferred income tax assets	38	31
Deferred income tax liabilities	(29)	(24)
Retained earnings	(182)	(146)

#### i. IAS 37, “Provisions, Contingent Liabilities and Contingent Assets” (“IAS 37”)

##### (i) Change in measurement basis

The guidance related to the recognition of provisions under IAS 37 contains certain differences in terminology, recognition requirements and basis of measurement. Accordingly, due to changes in the discount rate as required under IFRS, an adjustment related to the measurement of decommissioning liabilities, referred to as asset retirement obligations under CGAAP, was recognized on transition.

##### (ii) Onerous contracts

IFRS also has requirements with respect to the recognition of provisions for onerous contracts which are not specifically addressed in CGAAP except for certain onerous arrangements arising from a business combination. Consistent with CGAAP, future operating losses are not recognized as a liability since they do not result from a past transaction; however, a provision for an onerous contract is recognized under IFRS if the unavoidable costs under the contract exceed the benefits the Company will derive from it.

Accordingly, an additional provision for onerous lease contracts was recorded for certain leased properties at January 3, 2010. This change had the effect of increasing net earnings for the period ended June 19, 2010 and for the year ended January 1, 2011, as any expenses related to these properties that were recognized under CGAAP were offset against the provision that was recognized on transition to IFRS. The cumulative impact arising from the changes described above is summarized as follows:

#### Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Operating income	\$ 1	\$ 2	\$ 5
Net Interest expense and other financing charges	–	–	–
Income taxes	1	1	2
Net earnings	–	1	3

## Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at	
	June 19, 2010	January 1, 2011
Fixed assets	\$ 1	\$ 1
Deferred income tax assets	2	2
Provisions	23	20
Deferred income tax liabilities	(3)	(2)
Retained earnings	(17)	(15)

**j. IAS 39, “Financial Instruments: Recognition and Measurement” and IAS 18, “Revenue” (“IAS 18”)****(i) Franchise Relationships**

As a result of the Company no longer consolidating certain independent franchisees the Company was required to evaluate the sale of each franchise arrangement under IAS 18 at its inception. Based on the guidance in IAS 18, the Company concluded that each franchise arrangement contains separately identifiable components which were required to be measured at fair value. The impact of this requirement was that the fair value of certain consideration was less than the amounts recorded at inception.

The Company recognized and evaluated these additional financial assets and financial liabilities in accordance with IAS 39, which requires application retrospectively to the inception of each arrangement. The Company’s evaluation identified events that provide objective evidence that the cash flows associated with certain of these financial assets are such that the fair value was impaired. As a result, upon implementation of IFRS, the Company recorded a decrease in certain financial assets and a corresponding decrease to shareholders’ equity.

**(ii) Hedging Relationships**

Historically the Company has entered into cross-currency and interest rate swaps, which were designated to be in a cash flow hedging relationship under CGAAP. The method of assessing hedge effectiveness used under CGAAP did not qualify these instruments for hedge accounting under IFRS and accordingly the Company elected to discontinue hedge accounting at the transition date. This resulted in a transitional reclassification from accumulated other comprehensive income to retained earnings. Subsequent changes in fair value will be recorded in the consolidated statement of earnings. The discontinuance of the hedging relationship had the effect of decreasing net earnings in the period ended June 19, 2010 and in the year ended January 1, 2011.

**(iii) Derecognition of Credit Card Receivables**

IFRS contains different criteria than CGAAP for derecognition of financial assets and requires an evaluation of the extent to which an entity retains the risks and rewards of ownership as well as control over the transferred assets. Under CGAAP, the sale of credit card receivables to certain independent credit card trusts administered by major Canadian banks qualified for sale treatment pursuant to the criteria defined in Accounting Guideline 12, “Transfers of Receivables”. Given the revolving nature of these assets and the fact that substantially all the risks and rewards of ownership as defined in IAS 39 are retained by the Company, these financial assets do not qualify for derecognition under IFRS and therefore are recognized on the consolidated balance sheets.

The cumulative impact arising from the changes described above is summarized as follows:

#### Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Operating income	\$ –	\$ 3	\$ (56)
Net Interest expense and other financing charges	(4)	(8)	(15)
Income taxes	5	14	13
Net earnings	(1)	(3)	(54)

#### Consolidated Statements of Comprehensive Income

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Other comprehensive income, net of income taxes	\$ 2	\$ 8	\$ 11

#### Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at	
	June 19, 2010	January 1, 2011
Accounts receivable	\$ (84)	\$ (96)
Credit card receivables	1,112	517
Prepaid expenses and other assets	–	1
Deferred income tax assets	44	43
Franchise loans receivable	(55)	(85)
Other assets	(155)	(154)
Trade payables and other liabilities	(20)	(5)
Income taxes payable	2	–
Short term debt	1,135	535
Other liabilities	71	70
Retained earnings <sup>(1)</sup>	(318)	(369)
Accumulated other comprehensive income <sup>(1)</sup>	(8)	(5)

(1) Total equity impact is (\$374 million) at January 1, 2011 and (\$326 million) at June 19, 2010.

#### k. International Financial Reporting Interpretations Committee 13, “Customer Loyalty Programs” (“IFRIC 13”)

IFRIC 13 requires the fair value of loyalty programs to be recognized as a component of the related sales transaction, such that a portion of the revenue from the initial sales transaction in which the awards are granted is deferred. Under CGAAP, the Company recognized the net cost of the program in operating expenses. Accordingly, the Company has recorded an adjustment to defer a portion of the revenue for the initial sales transaction in which awards were granted and remain outstanding, based on the fair value of the awards granted. The Company has elected to allocate the fair value of awards granted using the residual fair value method.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

The impact arising from the change described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	12 Weeks Ended June 19, 2010	24 Weeks Ended June 19, 2010	52 Weeks Ended January 1, 2011
Revenue	\$ (32)	\$ (63)	\$ (126)
Selling, general and administrative expenses	(27)	(55)	(111)
Operating income	(5)	(8)	(15)
Income taxes	(1)	(2)	(4)
Net earnings	(4)	(6)	(11)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at	
	June 19, 2010	January 1, 2011
Accounts receivable	\$ (1)	\$ -
Deferred income tax assets	8	10
Trade payables and other liabilities	27	35
Retained earnings	(20)	(25)

## Consolidated Statements of Earnings

(millions of Canadian dollars)

For the twelve weeks ended June 19, 2010

Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
<b>Revenue</b>	\$ 7,317	\$ –	\$ (48)	\$ 7,269
<b>Cost of Merchandise Inventories Sold</b>	5,524	–	23	5,547
<b>Operating Expenses</b>				
Selling, general and administrative expenses	1,314	149	(86)	1,377
Depreciation and amortization	149	(149)	–	–
	1,463	–	(86)	1,377
<b>Operating Income</b>	330	–	15	345
Interest expense and other financing charges	64	–	17	81
<b>Earnings Before Income Taxes and Minority Interest</b>	266	–	(2)	264
Income Taxes	78	–	5	83
<b>Net Earnings Before Minority Interest</b>	188	–	(7)	181
Minority Interest	8	(8)	–	–
<b>Net Earnings</b>	\$ 180	\$ 8	\$ (7)	\$ 181
<b>Net Earnings Attributable to:</b>				
Shareholders of the Company		\$ –	\$ 1	\$ 181
Non-controlling interests		\$ 8	\$ (8)	\$ –
<b>Net Earnings Per Common Share (\$)</b> (note 5)				
Basic	\$ 0.64	\$ –	\$ 0.01	\$ 0.65
Diluted	\$ 0.64	\$ –	\$ –	\$ 0.64

(millions of Canadian dollars)

For the twenty-four weeks ended June 19, 2010

Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
<b>Revenue</b>	\$ 14,243	\$ –	\$ (61)	\$ 14,182
<b>Cost of Merchandise Inventories Sold</b>	10,730	–	66	10,796
<b>Operating Expenses</b>				
Selling, general and administrative expenses	2,622	301	(171)	2,752
Depreciation and amortization	301	(301)	–	–
	2,923	–	(171)	2,752
<b>Operating Income</b>	590	–	44	634
Interest expense and other financing charges	132	–	36	168
<b>Earnings Before Income Taxes and Minority Interest</b>	458	–	8	466
Income Taxes	137	–	16	153
<b>Net Earnings Before Minority Interest</b>	321	–	(8)	313
Minority Interest	4	(4)	–	–
<b>Net Earnings</b>	\$ 317	\$ 4	\$ (8)	\$ 313
<b>Net Earnings Attributable to:</b>				
Shareholders of the Company		\$ –	\$ (4)	\$ 313
Non-controlling interests		\$ 4	\$ (4)	\$ –
<b>Net Earnings Per Common Share (\$)</b> (note 5)				
Basic	\$ 1.14	\$ –	\$ (0.01)	\$ 1.13
Diluted	\$ 1.14	\$ –	\$ (0.05)	\$ 1.09

**Consolidated Statements of Comprehensive Income**

(millions of Canadian dollars)

For the twelve weeks ended June 19, 2010

<b>Accounts</b>	<b>CGAAP Balance</b>	<b>IFRS Reclassifications</b>	<b>IFRS Adjustments</b>	<b>IFRS Balance</b>
Net earnings	\$ 180	\$ 8	\$ (7)	\$ 181
Other comprehensive income				
Net unrealized (loss) gain on available-for-sale financial assets	(1)	–	1	–
Reclassification of loss (gain) on available for-sale financial assets to net earnings	4	–	(4)	–
	3	–	(3)	–
Net gain on derivative instruments designated as cash flow hedges	–	–	1	1
Reclassification of loss (gain) on derivative instruments designated as cash flow hedges to net earnings	(3)	–	4	1
	(3)	–	5	2
Actuarial gains/losses on defined benefit plans	–	–	(49)	(49)
Other comprehensive loss	–	–	(47)	(47)
<b>Total Comprehensive Income (Loss)</b>	<b>\$ 180</b>	<b>\$ 8</b>	<b>\$ (54)</b>	<b>\$ 134</b>
<b>Total Comprehensive Income Attributable to:</b>				
Shareholders of the Company		\$ –	\$ (46)	\$ 134
Non-controlling interests		\$ 8	\$ (8)	\$ –

(millions of Canadian dollars)

For the twenty-four weeks ended June 19, 2010

<b>Accounts</b>	<b>CGAAP Balance</b>	<b>IFRS Reclassifications</b>	<b>IFRS Adjustments</b>	<b>IFRS Balance</b>
Net earnings	\$ 317	\$ 4	\$ (8)	\$ 313
Other comprehensive income				
Net unrealized (loss) gain on available-for-sale financial assets	(5)	–	5	–
Reclassification of loss (gain) on available for-sale financial assets to net earnings	8	–	(8)	–
	3	–	(3)	–
Net (loss) gain on derivative instruments designated as cash flow hedges	(2)	–	1	(1)
Reclassification of loss (gain) on derivative instruments designated as cash flow hedges to net earnings	(6)	–	10	4
	(8)	–	11	3
Actuarial gains/losses on defined benefit plans	–	–	(81)	(81)
Other comprehensive loss	(5)	–	(73)	(78)
<b>Total Comprehensive Income (Loss)</b>	<b>\$ 312</b>	<b>\$ 4</b>	<b>\$ (81)</b>	<b>\$ 235</b>
<b>Total Comprehensive Income Attributable to:</b>				
Shareholders of the Company		\$ –	\$ (77)	\$ 235
Non-controlling interests		\$ 4	\$ (4)	\$ –

## Reconciliation of Consolidated Balance Sheets

(millions of Canadian dollars)

As at June 19, 2010

Accounts	CGAAP Balance	IFRS Reclassification	IFRS Adjustments	IFRS Balance
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$ 958	\$ –	\$ (39)	\$ 919
Short term investments	667	–	30	697
Accounts receivable	643	(271)	32	404
Credit card receivables	–	271	1,612	1,883
Inventories	2,085	–	(150)	1,935
Future income taxes	45	(45)	–	–
Prepaid expenses and other assets	127	–	2	129
Assets held for sale	–	83	–	83
<b>Total Current Assets</b>	<b>4,525</b>	<b>38</b>	<b>1,487</b>	<b>6,050</b>
Fixed Assets	8,599	(168)	(600)	7,831
Investment Properties	–	85	(15)	70
Goodwill and Intangible Assets	1,024	–	(3)	1,021
Deferred Income Taxes	–	1	280	281
Security Deposits	–	194	–	194
Franchise Loans Receivable	–	–	336	336
Other Assets	980	(194)	(446)	340
<b>Total Assets</b>	<b>\$ 15,128</b>	<b>\$ (44)</b>	<b>\$ 1,039</b>	<b>\$ 16,123</b>
<b>Liabilities</b>				
Current Liabilities				
Bank indebtedness	\$ 8	\$ –	\$ 6	\$ 14
Short term debt	–	–	1,135	1,135
Trade payables and other liabilities	3,106	(59)	135	3,182
Income taxes payable	28	–	7	35
Provisions	–	59	4	63
Long term debt due within one year	403	–	467	870
<b>Total Current Liabilities</b>	<b>3,545</b>	<b>–</b>	<b>1,754</b>	<b>5,299</b>
Provisions	–	23	21	44
Long Term Debt	4,169	–	401	4,570
Deferred Income Taxes	138	(44)	(69)	25
Capital Securities	220	–	–	220
Other Liabilities	520	(23)	228	725
Minority Interest	26	(26)	–	–
<b>Total Liabilities</b>	<b>8,618</b>	<b>(70)</b>	<b>2,335</b>	<b>10,883</b>
<b>Shareholders' Equity</b>				
Common Share Capital	1,349	–	–	1,349
Retained Earnings	5,149	–	(1,262)	3,887
Contributed Surplus	–	–	–	–
Accumulated Other Comprehensive Income	12	–	(8)	4
Non-controlling Interest	–	26	(26)	–
<b>Total Shareholders' Equity</b>	<b>6,510</b>	<b>26</b>	<b>(1,296)</b>	<b>5,240</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 15,128</b>	<b>\$ (44)</b>	<b>\$ 1,039</b>	<b>\$ 16,123</b>

**Consolidated Statements of Earnings**

(millions of Canadian dollars)

For the year ended January 1, 2011

Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
<b>Revenue</b>	\$ 30,997	\$ –	\$ (161)	\$ 30,836
<b>Cost of Merchandise Inventories Sold</b>	23,393	–	141	23,534
<b>Operating Expenses</b>				
Selling, general and administrative expenses	5,680	655	(380)	5,955
Depreciation and amortization	655	(655)	–	–
	6,335	–	(380)	5,955
<b>Operating Income</b>	1,269	–	78	1,347
Interest expense and other financing charges	273	–	80	353
<b>Earnings Before Income Taxes and Minority Interest</b>	996	–	(2)	994
Income Taxes	297	–	22	319
<b>Net Earnings Before Minority Interest</b>	699	–	(24)	675
Minority Interest	18	(18)	–	–
<b>Net Earnings</b>	\$ 681	\$ 18	\$ (24)	\$ 675
<b>Net Earnings Attributable to:</b>				
Shareholders of the Company	\$ –	\$ –	\$ (6)	\$ 675
Non-controlling Interests	\$ –	\$ 18	\$ (18)	\$ –
<b>Net Earnings Per Common Share (\$)</b>				
Basic	\$ 2.45	\$ –	\$ (0.02)	\$ 2.43
Diluted	\$ 2.44	\$ –	\$ (0.06)	\$ 2.38

## Consolidated Statements of Comprehensive Income

(millions of Canadian dollars)

For the year ended January 1, 2011

Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
Net earnings	\$ 681	\$ 18	\$ (24)	\$ 675
Other comprehensive income				
Net unrealized (loss) gain on available-for-sale financial assets	(12)	–	12	–
Reclassification of loss (gain) on available for-sale financial assets to net earnings	13	–	(13)	–
	1	–	(1)	–
Net gain (loss) on derivative instruments designated as cash flow hedges	1	–	(3)	(2)
Reclassification of loss (gain) on derivative instruments designated as cash flow hedges to net earnings	(9)	–	15	6
	(8)	–	12	4
Actuarial losses on defined benefit plans	–	–	(90)	(90)
Other comprehensive (loss) income	(7)	–	(79)	(86)
<b>Total Comprehensive Income</b>	<b>\$ 674</b>	<b>\$ 18</b>	<b>\$ (103)</b>	<b>\$ 589</b>
<b>Total Comprehensive Income Attributable to:</b>				
Shareholders of the Company	\$ –	\$ –	\$ (85)	\$ 589
Non-controlling Interests	\$ –	\$ 18	\$ (18)	\$ –

**Reconciliation of Consolidated Balance Sheets**

(millions of Canadian dollars)

As at January 1, 2011

Accounts	CGAAP Balance	IFRS Reclassification	IFRS Adjustments	IFRS Balance
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$ 932	\$ –	\$ (75)	\$ 857
Short term investments	735	–	19	754
Accounts receivable	724	(380)	22	366
Credit card receivables	–	380	1,617	1,997
Inventories	2,114	–	(158)	1,956
Income taxes	2	–	6	8
Future income taxes	39	(39)	–	–
Prepaid expenses and other assets	80	–	3	83
Assets held for sale	–	73	(2)	71
<b>Total Current Assets</b>	<b>4,626</b>	<b>34</b>	<b>1,432</b>	<b>6,092</b>
Fixed Assets	9,123	(162)	(584)	8,377
Investment Properties	–	89	(15)	74
Goodwill and Intangible Assets	1,029	–	(3)	1,026
Deferred Income Taxes	–	(49)	276	227
Security Deposits	354	–	–	354
Franchise Loans Receivable	–	–	314	314
Other Assets	787	–	(410)	377
<b>Total Assets</b>	<b>\$ 15,919</b>	<b>\$ (88)</b>	<b>\$ 1,010</b>	<b>\$ 16,841</b>
<b>Liabilities</b>				
Current Liabilities				
Bank indebtedness	\$ 3	\$ –	\$ 7	\$ 10
Short term debt	–	–	535	535
Trade payables and other liabilities	3,416	(62)	168	3,522
Provisions	–	62	–	62
Long term debt due within one year	433	–	469	902
<b>Total Current Liabilities</b>	<b>3,852</b>	<b>–</b>	<b>1,179</b>	<b>5,031</b>
Provisions	–	22	21	43
Long Term Debt	4,213	–	985	5,198
Deferred Income Taxes	178	(88)	(55)	35
Capital Securities	221	–	–	221
Other Liabilities	534	(22)	198	710
Minority Interest	41	(41)	–	–
<b>Total Liabilities</b>	<b>9,039</b>	<b>(129)</b>	<b>2,328</b>	<b>11,238</b>
<b>Shareholders' Equity</b>				
Common Share Capital	1,475	–	–	1,475
Retained Earnings	5,395	–	(1,273)	4,122
Contributed Surplus	–	–	1	1
Accumulated Other Comprehensive Income	10	–	(5)	5
Non-controlling Interest	–	41	(41)	–
<b>Total Shareholders' Equity</b>	<b>6,880</b>	<b>41</b>	<b>(1,318)</b>	<b>5,603</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 15,919</b>	<b>\$ (88)</b>	<b>\$ 1,010</b>	<b>\$ 16,841</b>

## Earnings Coverage Exhibit to the Unaudited Interim Period Condensed Consolidated Financial Statements

The following is the Company's updated earnings coverage ratio for the rolling 52 week period ended June 18, 2011 in connection with the Company's Short Form Base Shelf Prospectus dated November 25, 2010.

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Earnings Coverage on financial liabilities	3.79 times
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The earnings coverage ratio on financial liabilities is equal to net earnings before interest on short-term debt, interest on long term debt, dividends on capital securities and income taxes divided by interest on short-term debt, interest on long term debt and dividends on capital securities as shown in the notes to the consolidated financial statements of the Company for the period.



# Loblaws

COMPANIES LIMITED

Ce rapport est disponible en français.