2013 Annual Report - Financial Review

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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 annual audited consolidated financial statements and the accompanying notes on pages 46 to 106 of this Annual Report - Financial Review ("Annual Report"). The Company's annual audited consolidated financial statements and accompanying notes for the year ended December 28, 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except where otherwise noted.

The information in this MD&A is current to February 19, 2014, unless otherwise noted. A glossary of terms used throughout this Annual Report can be found on page 109.

1. Forward-Looking Statements

This Annual Report, including this MD&A, 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. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results and events, the proposed acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") and targeted synergies expected following the close of this acquisition, future liquidity, planned capital expenditures, amount of pension plan contributions, status and impact of information technology ("IT") systems implementation and future plans. These specific forward-looking statements are contained throughout this Annual Report including, without limitation, in the Vision and Strategies section on page 4 and the Outlook section on page 39 of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2014 is based on certain assumptions including assumptions about revenue growth, anticipated cost savings and operating efficiencies, and competitive square footage growth. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the Enterprise Risks and Risk Management section on pages 28 to 35 of this MD&A. Such risks and uncertainties include:

- failure by the Company to complete the acquisition of Shoppers Drug Mart or to realize the anticipated strategic benefits or operational, competitive and cost synergies;
- failure to realize benefits from investments in the Company's IT systems, including the Company's IT systems implementation, or unanticipated results from these initiatives;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including those from restructuring;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business;
- public health events including those related to food safety;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- changes in economic conditions, including the rate of inflation or deflation, changes in interest and currency exchange rates and derivative and commodity prices;
- changes in the Company's income, capital, commodity, property and other tax and regulatory liabilities including changes in tax laws, regulations or future assessments;
- changes to the regulation of generic prescription drug prices and the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- changes in the Company's estimate of inventory cost as a result of its IT system upgrade;
- failure to respond to changes in consumer tastes and buying patterns;

- reliance on the performance and retention of third-party service providers, including those associated with the Company's supply chain and apparel business;
- supply and quality control issues with vendors in both advanced and developing markets;
- the impact of potential environmental liabilities;
- any requirement of the Company to make contributions to its registered funded defined benefit pension plans or the multi-employer pension plans in which it participates in excess of those currently contemplated;
- the risk that the Company would experience a financial loss if its counterparties fail to meet their obligations in accordance with the terms and conditions of their contracts with the Company;
- the inability of the Company to collect on its credit card receivables; and
- failure of Choice Properties Real Estate Investment Trust ("Choice Properties") to execute its plan and realize its forecasted results.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

2. Overview

The Company is a subsidiary of George Weston Limited ("Weston"). It is Canada's largest food retailer, a leading provider of drugstore, general merchandise and financial products and services, and is the majority unitholder of Choice Properties, an owner, manager and developer of commercial real estate across Canada. The Company has three reportable operating segments: Retail, Financial Services and Choice Properties. Loblaw and its franchisees together are among the largest private sector employers in Canada, employing approximately 138,000 full-time and part-time employees across more than 1,000 corporate and franchise stores from coast to coast. Through its portfolio of store formats, Loblaw is committed to providing Canadians with a wide range of products and services to meet everyday household and consumer needs. Loblaw is known for the quality, innovation and value of its food offering. It offers one of Canada's strongest control brand programs, including the unique *President's Choice*, *no name* and *Joe Fresh* brands. In addition, through its subsidiaries, the Company makes available to consumers *President's Choice Financial* services and offers the *PC* points and *PC Plus* loyalty programs.

3. Vision and Strategies

The Company's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices. As one of the country's leading retailers, reaching 14 million consumers each week, the Company is uniquely positioned to deliver on its purpose - helping Canadians Live Life Well - and to provide customers with products, services, value and experience to enrich their lives. The Company delivers on this purpose through its strategy of offering the best customer experience in food, health, and beauty while striving for operational excellence and achieving growth through opportunities in emerging and complementary businesses.

In 2013, the Company advanced a number of strategic initiatives that were introduced in 2012. Targeted investments to improve the customer proposition yielded same-store sales growth of 1.1% in a competitive environment characterized by intense competitive square footage growth. Progress was made in the Company's IT system implementation, and efficiencies were achieved in targeted areas such as shrink, transportation costs, warehousing, supply chain, and labour. Some of Loblaw's key accomplishments in 2013 include:

- Entered into an arrangement agreement to acquire all of the outstanding common shares of Shoppers Drug Mart, the country's leading pharmaceutical retailer, and completed all of the financing required to fund the acquisition;
- Completed the $460 million Initial Public Offering ("IPO") of Choice Properties, including a $60 million over-allotment option, and sold approximately $7 billion in properties and related assets to Choice Properties;
- Expanded the IT system implementation across eight distribution centres and 75 stores, with little to no negative impact on customers;
- Achieved improved customer feedback net promoter scores in the conventional division for the third consecutive year by exceeding customer expectations through the right assortment, improved customer in-store experience and competitive prices;
- Led by fresh categories, achieved growth in sales and tonnage in the discount division despite strong competitive square footage growth;
- Ongoing development and implementation of strategic category reviews offered customized assortment, compelling displays and delivered competitive value across its banners;
- Continued to invest to improve standards and in-store experience through renovations at 192 stores and strategically invested in new square footage, expanding to 51.9 million square feet, a net increase of 0.8% compared to 2012;
- Launched over 550 new control brand products and redesigned or improved approximately 640 control brand products;
- Reset the general merchandise in 29 stores to offer an enhanced selection in four key areas: Apparel, Beauty, Home, and Kids;
- Grew the *PC Financial s*ervices business, setting a new high with 1.2 million new MasterCard® applications;
- Launched a new digital loyalty marketing platform, *PC Plus*, in 44 Loblaw stores in May 2013 and expanded the program nationally across the conventional network and *Real Canadian Superstore* locations in November 2013;
- Launched *Joe Fresh* online in October 2013; and
- Effectively managed costs across the business with a focus on improved shrink, lower supply chain costs, labour and administrative expenses to drive efficient operations.

In 2014, the Company expects to advance a number of the strategic initiatives that were underway in 2013. The Company will continue to invest in innovative products, services and channels to maintain its competitive position. The Company expects to advance efficiency initiatives during the year, with a focus on continuing to roll out its IT system implementation and to achieve targeted synergies from the Shoppers Drug Mart acquisition following transaction closing. The Company's plans for 2014 include:

- Completing the acquisition of Shoppers Drug Mart, and post-close, delivering on targeted synergies of approximately $100 million in the first twelve months and approximately $300 million over three years;
- Focusing on cash flow generation and reducing leverage ratios following the close of the Shoppers Drug Mart acquisition;
- Maintaining or growing market share in the Company's core food and drug businesses, which account for over 85% of total revenue;
- Continuing to focus on execution and achieving efficiencies;
- Exceeding customer expectations and achieving improved customer feedback scores with the right assortment, improved customer in-store experience, and competitive prices;
- Offering customized assortment, compelling displays, and delivering competitive value across banners through ongoing development and implementation of strategic category reviews;
- Leveraging the Company's control brands to generate growth across food and general merchandise categories;
- Expanding the *PC Plus* digital loyalty program to build customer loyalty by marketing on an individualized basis;
- Growing the *PC Financial* services business, including launching a newly designed in-store customer service pavilion;
- Advancing initiatives to support colleague retention, succession planning, recognition and development to drive colleague engagement; and
- Expanding the roll-out of the Company's IT system to all of its distribution centres and corporate retail stores without negative impact to customers.

4. Key Financial Performance Indicators

The Company has identified specific key financial performance indicators to measure the progress of short and long term objectives. Key financial performance indicators are set out below:

As at or for the periods ended December 28, 2013 and December 29, 2012 (millions of Canadian dollars except where otherwise indicated)	2013 (52 weeks)	2012[1] (52 weeks)
Consolidated:		
Revenue growth	2.4%	1.1 %
Operating income	$ 1,326	$ 1,195
Adjusted operating income[2]	1,325	1,292
Adjusted operating margin[2]	4.1%	4.1 %
Adjusted EBITDA[2]	2,149	2,069
Adjusted EBITDA margin[2]	6.6%	6.5 %
Net earnings	630	634
Adjusted net earnings[2]	731	710
Basic net earnings per common share ($)	2.24	2.25
Adjusted basic net earnings per common share[2] ($)	2.60	2.52
Cash and cash equivalents, short term investments and security deposits	4,251	2,047
Cash flows from operating activities	1,491	1,637
Adjusted debt[2] to adjusted EBITDA[2]	2.8x	2.1x
Free cash flow[2]	489	468
Interest coverage[2]	2.8x	3.4x
Return on average net assets[2]	10.7%	10.0 %
Return on average shareholders' equity	9.4%	10.2 %
Retail Segment:		
Same-store sales[3] growth (decline)	1.1%	(0.2)%
Gross profit	$ 6,966	$ 6,819
Gross profit percentage	22.0%	22.0 %
Adjusted operating margin[2]	3.7%	3.9 %
Adjusted EBITDA margin[2]	6.3%	6.3 %
Financial Services Segment:		
Earnings before income taxes	$ 93	$ 50
Annualized yield on average quarterly gross credit card receivables[3]	13.6%	12.8 %
Annualized credit loss rate on average quarterly gross credit card receivables[3]	4.2%	4.3 %
Choice Properties Segment[4]:		
Net operating income[2]	$ 222	$ —
Funds from operations[2]	159	—
Adjusted funds from operations[2]	131	—
Adjusted funds from operations per unit diluted[2] ($)	0.36	—
Adjusted funds from operations payout ratio[2]	88.6%	— %

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013" section on page 37.

(2) See Non-GAAP Financial Measures on page 40.

(3) For financial definitions and ratios refer to the Glossary of Terms on page 109.

(4) Results are for the period ended December 31, 2013, consistent with Choice Properties' fiscal calendar.

During 2013, the Company introduced new financial measures: adjusted operating income[(1)], adjusted operating margin[(1)], adjusted EBITDA[(1)], adjusted EBITDA margin[(1)], adjusted net earnings[(1)] and adjusted basic net earnings per common share[(1)], which are all non-GAAP measures. Management uses these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing consolidated and segment underlying operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

With respect to Choice Properties segment results, management also uses net operating income[(1)], funds from operations[(1)], adjusted funds from operations[(1)], adjusted funds from operations per unit diluted[(1)] and adjusted funds from operations payout ratio[(1)] to measure Choice Properties' operations. Management uses these measures to assess the financial performance and financial condition of Choice Properties. See the Non-GAAP Financial Measures section on page 40 of this MD&A for more information on the Company's non-GAAP financial measures.

5. Overall Financial Performance

5.1 Significant Accomplishments in 2013

Significant accomplishments were achieved in 2013: the agreement to acquire Shoppers Drug Mart and the IPO of Choice Properties.

Agreement to Acquire Shoppers Drug Mart Corporation On July 14, 2013, the Company entered into an arrangement agreement to acquire all of the outstanding common shares of Shoppers Drug Mart for consideration of up to approximately $6.7 billion of cash and the issuance of up to approximately 119.9 million common shares. Based on the Company's closing common share price on that date, the purchase price would be approximately $12.4 billion.

In 2013, the Company completed the financing required to close the acquisition of all of the outstanding common shares of Shoppers Drug Mart, as described in the Liquidity and Capital Structure section on page 17. As part of the financing of the acquisition, the Company's controlling shareholder, Weston, has agreed to subscribe for approximately $500 million of additional Loblaw common shares.

On September 12, 2013, Shoppers Drug Mart shareholders voted in favour of the agreement and on September 16, 2013 a final order of the Ontario Superior Court of Justice approving the agreement was obtained. The transaction is subject to various regulatory approvals under the *Competition Act* (Canada) and by the Toronto Stock Exchange ("TSX"), and the fulfillment of certain other closing conditions customary in transactions of this nature. The process of review under the *Competition Act* (Canada) is proceeding as expected and the Company anticipates that the transaction will be completed during the first quarter of 2014. Further information on the transaction and its expected effects on the Company can be found in the Information Statement filed by the Company on August 20, 2013, in respect of Shoppers Drug Mart shareholder approval of the transaction. There can be no assurance that all conditions will be met or waived or that the Company will be able to successfully consummate the proposed transaction as currently contemplated or at all.

Choice Properties Real Estate Investment Trust During 2013, in connection with its acquisition of approximately $7 billion of properties and related assets from Loblaw, Choice Properties completed a $460 million IPO of Trust Units ("Units") including the exercise of a $60 million over-allotment option. In addition, Choice Properties completed a $200 million offering of Units to Weston. Units were issued at a price of $10.00 per Unit and gross proceeds were $660 million. The Company recorded transaction costs of approximately $44 million in net interest expense and other financing charges related to the completion of the IPO.

Concurrent with the offering of Units, Choice Properties completed a public offering of $600 million aggregate principal amount of senior unsecured debentures ("Debentures"). A portion of the debt offering proceeds were used to replenish the cash used to repay the United States dollar ("USD") $150 million US private placement ("USPP") note that matured and to early-settle the remaining USD $150 million USPP note, including the associated early-settlement costs of approximately $18 million, which were recorded in net interest expense and other financing charges.

As at December 28, 2013, the Company held an effective ownership in Choice Properties of approximately 82.2% through ownership of 21,500,000 Units and 284,074,754 Class B Limited Partnership units, which are economically equivalent to and exchangeable for Units. Included in the Class B Limited Partnership units are 11,576,883 units issued to the Company, in connection with the acquisition of an additional portfolio of investment properties subsequent to the IPO.

(1) See Non-GAAP Financial Measures on page 40.

5.2 Consolidated Results of Operations

For the periods ended December 28, 2013 and December 29, 2012 (millions of Canadian dollars except where otherwise indicated)	2013 (52 weeks)	2012[2] (52 weeks)	$ Change	% Change
Revenue	$ 32,371	$ 31,604	$ 767	2.4 %
Operating income	1,326	1,195	131	11.0 %
Adjusted operating income[1]	1,325	1,292	33	2.6 %
Net interest expense and other financing charges	468	351	117	33.3 %
Income taxes	228	210	18	8.6 %
Net earnings	$ 630	$ 634	$ (4)	(0.6)%
Adjusted net earnings[1]	731	710	21	3.0 %
Basic net earnings per common share[3] ($)	2.24	2.25	(0.01)	(0.4)%
Adjusted basic net earnings per common share[1] ($)	2.60	2.52	0.08	3.2 %
Adjusted operating margin[1]	4.1%	4.1%		
Adjusted EBITDA[1]	$ 2,149	$ 2,069	$ 80	3.9 %
Adjusted EBITDA margin[1]	6.6%	6.5%		

During 2013, the Company announced the reduction of approximately 275 store-support positions, and incurred a charge of $32 million associated with this restructuring. Total restructuring costs for 2013 were approximately $35 million (2012 – $61 million).

Revenue The $767 million increase in revenue compared to 2012 was primarily driven by increases in both the Company's Retail and Financial Services segments, as described in the Reportable Operating Segments Results of Operations section below.

Operating Income Operating income increased by $131 million compared to 2012 and was positively impacted by the gain related to defined benefit plan amendments recorded in the first quarter of 2013, favourable year-over-year changes in fixed asset and other related impairments, net of recoveries, and lower restructuring costs, partially offset by lower gains on disposal of assets, start-up and general and administrative costs related to Choice Properties, costs related to the acquisition of Shoppers Drug Mart and higher year-over-year equity-based compensation charges. Adjusted operating income[1] increased by $33 million compared to 2012, primarily driven by an increase in the Financial Services segment's adjusted operating income[1], partially offset by a decline in the Retail segment's adjusted operating income[1]. Adjusted operating margin[1] was 4.1% for 2013, flat compared to 2012.

Net Interest Expense and Other Financing Charges In 2013, net interest expense and other financing charges increased by $117 million compared to 2012. This year-over-year increase was primarily driven by the Choice Properties' IPO transaction costs of $44 million, an unfavourable $27 million fair value adjustment related to the Trust Unit Liability, reflecting the change in the fair value of Choice Properties' Units held by unitholders other than the Company, net interest of $25 million relating to indebtedness incurred to finance the proposed acquisition of Shoppers Drug Mart, and early debt settlement costs of $18 million. Excluding these impacts, net interest expense and other financing charges increased by $3 million in 2013 compared to 2012, driven by Unit distributions by Choice Properties, partially offset by higher net interest income related to certain financial derivative instruments and lower net interest on net defined benefit obligations.

Income Taxes Income tax expense for 2013 was $228 million (2012 – $210 million) and the effective income tax rate was 26.6% (2012 – 24.9%). The increase in the effective income tax rate over 2012 was primarily due to an increase in non-deductible amounts (including fair value adjustments on the Trust Unit Liability), partially offset by an increase in income tax recoveries related to prior year matters.

(1) See Non-GAAP Financial Measures on page 40.

(2) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013" section on page 37.

(3) For financial definitions and ratios refer to the Glossary of Terms on page 109.

Net Earnings Net earnings for 2013 decreased by $4 million compared to 2012, primarily driven by the increase in net interest expense and other financing charges and income tax expense, partially offset by the increase in operating income described above. Adjusted net earnings[(1)] increased by $21 million compared to 2012, primarily driven by the increase in adjusted operating income[(1)].

Basic net earnings per common share[(2)] for 2013 decreased by 0.4% to $2.24, from $2.25 in 2012. Adjusted basic net earnings per common share[(1)] for 2013 increased by 3.2% to $2.60 from $2.52 in 2012.

5.3 Selected Financial Information

The selected information presented below has been derived from and should be read in conjunction with the annual consolidated financial statements of the Company dated December 28, 2013, and the annual consolidated financial statements of the Company dated December 29, 2012. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the financial condition and results of the Company's operations over the latest three year period.

For the periods ended December 28, 2013, December 29, 2012 and December 31, 2011 (millions of Canadian dollars except where otherwise indicated)	2013 (52 weeks)	2012[(3)] (52 weeks)	2011[(3)] (52 weeks)
Revenue	$ 32,371	$ 31,604	$ 31,250
Net earnings	630	634	769
Basic net earnings per common share ($)	$ 2.24	$ 2.25	$ 2.73
Diluted net earnings per common share ($)	2.22	2.23	2.71
Dividends declared per common share ($)	$ 0.94	$ 0.85	$ 0.84
Dividends declared per Second Preferred Share, Series A ($)	1.49	1.49	1.49

(millions of Canadian dollars)	As at December 28, 2013	As at December 29, 2012	As at December 31, 2011
Total Assets	$ 20,759	$ 17,961	$ 17,428
Long term debt	$ 7,680	$ 5,669	$ 5,580
Capital securities	224	223	222
Trust Unit Liability	688	—	—
Long term financial liabilities	$ 8,592	$ 5,892	$ 5,802

Revenue The Company's retail sales have been under pressure in a competitively intense retail market and uncertain economic environment. In 2013, same-store sales[(2)] increased by 1.1% compared to a decline of 0.2% in 2012. Average annual national food price inflation as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI") was 1.1% in 2013 and 2.3% in 2012. In 2013 and 2012, the Company's average annual internal retail food price index was lower than CPI. During 2013, the number of corporate and franchise stores increased to 1,066 (2012 – 1,053; 2011 – 1,046). Retail square footage in 2013 increased to 51.9 million (2012 – 51.5 million; 2011 – 51.2 million). In addition, PC Financial revenues have shown strong growth over the past two years, increasing by 14.8% in 2013, and 17.7% in 2012.

(1) See Non-GAAP Financial Measures on page 40.

(2) For financial definitions and ratios refer to the Glossary of Terms on page 109.

(3) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013" section on page 37.

Operating Income Over the last three years, the Company's consolidated operating income was impacted by the following items:

- Choice Properties start-up costs recognized in the third quarter of 2013;
- Choice Properties general and administrative costs beginning in 2013;
- Costs related to the acquisition of Shoppers Drug Mart beginning in 2013;
- Gains related to defined benefit plan amendments recorded in 2013;
- Costs related to equity-based compensation net of equity forwards;
- Restructuring costs, including the costs associated with reducing head office and administrative positions;
- Fixed asset and other related impairments, net of recoveries;
- Start-up costs associated with the launch of the Joe Fresh brand in the United States incurred in the fourth quarter of 2011;
- Costs related to certain prior years' commodity tax matters incurred in the second quarter of 2011;
- A gain recognized related to the sale of a portion of a property in North Vancouver, British Columbia in the third quarter of 2011;

In addition to the items above, in both 2013 and 2012, the Company made investments in its customer proposition to better position itself in an intensely competitive market. Compared to 2011, the Company's 2012 operating income was negatively impacted by these investments, which were not covered by operations, as well as incremental IT and supply chain charges and charges associated with transitioning certain Ontario conventional stores to the more cost effective and efficient operating terms of collective agreements ratified in 2010.

Net Earnings In 2013, net earnings and basic net earnings per common share were negatively impacted by an increase in net interest expense and other financing charges, which were primarily driven by the Choice Properties' IPO transaction costs, the fair value adjustment related to the Trust Unit Liability, net interest related to the indebtedness incurred to finance the proposed acquisition of Shoppers Drug Mart, and early debt settlement costs. In addition, during 2013, net earnings and basic net earnings per common share were negatively impacted by a higher effective income tax rate, partially offset by higher operating income.

During 2012, net earnings and basic net earnings per common share were negatively impacted by lower operating income and higher net interest expense and other financing charges, partially offset by a lower effective income tax rate.

Total Assets and Long Term Financial Liabilities In 2013, total assets and long term financial liabilities increased by 15.6% and 45.8% respectively, compared to 2012. The increases during the year were primarily driven by the Choice Properties and Shoppers Drug Mart transactions as described in Section 5.1, "Significant Accomplishments in 2013" and 8.2, "Liquidity and Capital Structure" of this MD&A. Excluding these impacts, the Company's total assets and long term financial liabilities have increased marginally over the last three years.

6. Reportable Operating Segments Results of Operations

6.1 Retail Segment

For the periods ended December 28, 2013 and December 29, 2012 (millions of Canadian dollars where otherwise indicated)	2013 (52 weeks)	2012 (52 weeks)	$ Change	% Change
Sales	$ 31,600	$ 30,960	$ 640	2.1 %
Gross profit	6,966	6,819	147	2.2 %
Operating income	1,185	1,100	85	7.7 %
Adjusted operating income[1]	1,172	1,197	(25)	(2.1)%
Adjusted EBITDA[1]	1,981	1,964	17	0.9 %

For the periods ended December 28, 2013 and December 29, 2012	2013 (52 weeks)	2012 (52 weeks)
Same-store sales[2] growth (decline)	1.1%	(0.2)%
Gross profit percentage	22.0%	22.0 %
Adjusted operating margin[1]	3.7%	3.9 %
Adjusted EBITDA margin[1]	6.3%	6.3 %

Sales In 2013, the increase in Retail sales of $640 million, or 2.1%, over 2012 was a result of the following factors:

- Same-store sales[2] growth was 1.1% (2012 – decline of 0.2%) and excluding gas bar was 1.0% (2012 – decline of 0.2%);
- Sales growth in food was moderate;
- Sales in drugstore were flat;
- Sales in general merchandise, excluding apparel, declined marginally;
- Sales growth in apparel was modest;
- Sales growth in gas bar was moderate;
- The Company's average annual internal food price inflation was lower than the average annual national food price inflation of 1.1% (2012 – 2.3%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- During 2013, 26 (2012 – 18) corporate and franchise stores were opened and 13 (2012 – 11) corporate and franchise stores were closed, resulting in a net increase of 0.4 million square feet, or 0.8%.

In 2013, the Company launched over 550 new control brand products and redesigned and/or improved the product or packaging of approximately 640 other products. Sales of control brand products in 2013 were $9.6 billion, flat to 2012 on a comparable basis.

Gross Profit In 2013, gross profit percentage was 22.0%, flat compared to 2012 and included the negative impacts of continued investments in food margins, offset by lower transportation costs and margin improvements in general merchandise. Gross profit increased by $147 million compared to 2012, driven by higher sales.

Operating Income Operating income increased by $85 million, and was positively impacted by the gain related to defined benefit plan amendments, favourable year-over-year changes in fixed asset and other related impairments, net of recoveries, and lower restructuring costs, partially offset by lower gains on disposal of assets, and costs related to the acquisition of Shoppers Drug Mart. Adjusted operating income[1] decreased by $25 million compared to 2012, primarily driven by investments in, and changes to the value of the Company's franchise business, increased other operating costs, including depreciation and amortization, costs related to the growth in certain of the Company's emerging businesses and foreign exchange losses, partially offset by higher gross profit and supply chain efficiencies. Adjusted operating margin[1] in 2013 was 3.7% compared to 3.9% in 2012.

Adjusted EBITDA[1] increased by $17 million compared to 2012, and adjusted EBITDA margin[1] was 6.3%, flat compared to 2012. Retail segment depreciation and amortization increased by $42 million compared to 2012.

(1) See Non-GAAP Financial Measures on page 40.

(2) For financial definitions and ratios refer to the Glossary of Terms on page 109.

6.2 Financial Services Segment

For the periods ended December 28, 2013 and December 29, 2012 (millions of Canadian dollars except where otherwise indicated)	2013 (52 weeks)	2012 (52 weeks)	$ Change	% Change
Revenue	$ 739	$ 644	$ 95	14.8%
Operating income	142	95	47	49.5%
Earnings before income taxes	93	50	43	86.0%

(millions of Canadian dollars except where otherwise indicated)	As at December 28, 2013	As at December 29, 2012	$ Change	% Change
Average quarterly net credit card receivables	$ 2,345	$ 2,105	$ 240	11.4%
Credit card receivables	2,538	2,305	233	10.1%
Allowance for credit card receivables	47	43	4	9.3%
Annualized yield on average quarterly gross credit card receivables(2)	13.6%	12.8%		
Annualized credit loss rate on average quarterly gross credit card receivables(2)	4.2%	4.3%		

Revenue Revenue in 2013 increased by $95 million, or 14.8%, compared to 2012. The increase was primarily driven by higher interest income, interchange and other service fee related income, driven by higher credit card receivable balances and increased credit card transaction values. Higher *PC* Telecom revenues resulting from growth in the Mobile Shop business also contributed to the increase.

Operating Income and Earnings Before Income Taxes Operating income and earnings before income taxes increased by $47 million and $43 million, respectively, compared to 2012. These increases were mainly attributable to the higher revenue described above, partially offset by continued investments in marketing, customer acquisitions and the Mobile Shop business.

Credit Card Receivables As at December 28, 2013, credit card receivables were $2,538 million, an increase of $233 million compared to December 29, 2012. This increase was primarily driven by growth in the active customer base as a result of continued investments in customer acquisitions and marketing initiatives. As at December 28, 2013, the allowance for credit card receivables was $47 million, an increase of $4 million compared to December 29, 2012, primarily due to the growth in the credit card receivables portfolio.

(1) See Non-GAAP Financial Measures on page 40.

(2) For financial definitions and ratios refer to the Glossary of Terms on page 109.

6.3 Choice Properties Segment

For the periods ended December 28, 2013 and December 29, 2012 (millions of Canadian dollars)		2013[1] (52 weeks)		2012 (52 weeks)
Revenue	$	319	$	—
Operating income		370		—
Adjusted operating income[2]		382		—
Net interest expense and other financing charges		303		—

For the periods ended December 28, 2013 and December 29, 2012 (millions of Canadian dollars except where otherwise indicated)		2013[1] (52 weeks)		2012 (52 weeks)
Net operating income[2]	$	222	$	—
Funds from operations[2]		159		—
Adjusted funds from operations[2]		131		—
Adjusted funds from operations per unit diluted[2] ($)		0.36		—
Adjusted funds from operations payout ratio[2]		88.6%		—%

Revenue Revenue in 2013 was $319 million, of which $287 million was received from the Retail segment. Revenue consists of base rent, operating cost and property tax recoveries.

Operating Income Operating income in 2013 was $370 million and included $12 million of start-up and general and administrative costs. Adjusted operating income[2] was $382 million and included a $144 million favourable fair value adjustment on investment properties, which are measured by the Company at cost.

Net Operating Income[2] Net operating income[2] in 2013 was $222 million, which consists of cash rental revenue less property operating costs.

Funds from Operations[2] and Adjusted Funds from Operations[2] Funds from operations[2] and adjusted funds from operations[2] in 2013 were $159 million and $131 million respectively.

Results of Choice Properties operations in 2013 were in line with the financial forecast included in Choice Properties' equity and debt prospectuses dated June 26, 2013.

Subsequent to the initial transfer of properties, in 2013, Choice Properties acquired 11 investment properties from the Company for an aggregate purchase price of approximately $187 million, which was settled through the issuance of 11,576,883 Class B Limited Partnership units and cash. In addition, Choice Properties acquired a property from a third party for approximately $2 million, which was settled in cash.

Subsequent to the end of the year, Choice Properties completed the issuance of $450 million aggregate principal amount of senior unsecured debentures. See section 8.2 Liquidity and Capital Structure on page 17.

(1) Results are for the period ended December 31, 2013, consistent with Choice Properties' fiscal calendar. Adjustments to December 28, 2013 are included in Consolidation and Eliminations.

(2) See Non-GAAP Financial Measures on page 40.

7. Other Business Matters

Information Technology and Other Systems Implementations The Company is undertaking a major upgrade of its IT infrastructure, which began in 2010. This project represents one of the largest technology infrastructure programs ever implemented by the Company and is fundamental to its long term growth strategies. During 2013, the Company continued to make progress with the implementation and to date has successfully implemented the system in eight distribution centres and 75 stores, including 16 Joe Fresh stores, with little to no impact on customers. The Company is focused on optimizing data, systems and processes to continue to build a stable foundation for the roll-out and now expects the system to be implemented in all of its distribution centres and in all of the Company's corporate retail stores by the end of 2014.

Inventory Valuation The Company values merchandise inventories at the lower of cost and net realizable value and uses the retail method to measure the cost of the majority of its retail store inventories. With the upgrade of its IT infrastructure, the Company expects to complete the conversion of its corporate retail stores to a perpetual inventory management system in 2014. The implementation of a perpetual inventory system combined with visibility to integrated costing information provided by the new IT systems will enable the Company to estimate the cost of inventory using a system-generated weighted average cost. Any changes to inventory cost would be reflected as an adjustment to the Company's inventory with an offsetting adjustment recorded in gross profit.

8. Liquidity and Capital Resources

8.1 Cash Flows

Major Cash Flow Components

For the periods ended December 28, 2013 and December 29, 2012 (millions of Canadian dollars except where otherwise indicated)	2013 (52 weeks)	2012 (52 weeks)	$ Change	% Change
Cash flows from (used in):				
Operating activities	$ 1,491	$ 1,637	$ (146)	(8.9)%
Investing activities	(1,839)	(989)	(850)	(85.9)%
Financing activities	1,521	(531)	2,052	386.4 %

Cash Flows from Operating Activities Cash flows from operating activities were $1,491 million in 2013, a decrease of $146 million compared to 2012. The decrease was due to higher investments in working capital and credit card receivables, partially offset by proceeds from the settlement of cross currency swaps, higher cash earnings and lower contributions to the Company's defined benefit plans.

Working capital investments were affected by higher accounts receivable balances as a result of increases in the apparel business and vendor related receivables, the timing of the collection of other tax recoveries, and an increase in accrued liabilities due to costs related to the Shoppers Drug Mart acquisition.

Cash Flows used in Investing Activities Cash flows used in investing activities were $1,839 million in 2013, an increase of $850 million from 2012, primarily due to an increase in cash placed in security deposits, partially offset by a decrease in short term investments and lower fixed asset purchases.

The increase in security deposits in 2013 was primarily due to the funds placed in escrow related to the issuance of $1.6 billion aggregate principal amount of senior unsecured notes, which will be used to partially fund the acquisition of all of the outstanding common shares of Shoppers Drug Mart.

Capital investment[1] in 2013 was $0.9 billion (2012 – $1.0 billion). Approximately 14% (2012 – 15%) of this investment was for new store developments, expansions and land, approximately 45% (2012 – 31%) was for store conversions and renovations, and approximately 41% (2012 – 54%) was for infrastructure investments.

The 2013 corporate and franchise store capital investment program, which included the impact of store openings and closures, resulted in an increase in net retail square footage of 0.8% compared to 2012. During 2013, 26 (2012 – 18) corporate and franchise stores were opened and 13 (2012 – 11) corporate and franchise stores were closed, resulting in a net increase of 0.4 million square feet (2012 – 0.3 million square feet). In 2013, 192 (2012 – 181) corporate and franchise stores were renovated.

The Company expects to invest approximately $1.0 billion in capital expenditures in 2014. Approximately 21% of these funds are expected to be dedicated to investing in the IT and supply chain projects, 63% will be spent on retail operations and 16% on other infrastructure.

(1) For financial definitions and ratios refer to the Glossary of Terms on page 109.

Capital Investment and Store Activity

As at or for the periods ended December 28, 2013 and December 29, 2012	2013 (52 weeks)	2012 (52 weeks)	% Change
Capital investment (millions of Canadian dollars)	$ 865	$ 1,017	(14.9)%
Corporate square footage (in millions)	37.2	37.6	(1.1)%
Franchise square footage (in millions)	14.7	13.9	5.8 %
Retail square footage (in millions)	51.9	51.5	0.8 %
Number of corporate stores	570	580	(1.7)%
Number of franchise stores	496	473	4.9 %
Percentage of corporate real estate owned	72%	72%	
Percentage of franchise real estate owned	45%	45%	
Average store size (square feet)			
Corporate	65,300	64,800	0.8 %
Franchise	29,600	29,400	0.7 %

Cash Flows from (used in) Financing Activities During 2013, cash flows from financing activities were $1,521 million compared to $531 million used in 2012. The increase of $2,052 million was primarily due to net issuances of long term debt and net proceeds from the offering of Choice Properties' Units, partially offset by repayment of short term debt and the purchase of common shares under the Company's Normal Course Issuer Bid ("NCIB"), of which the Company placed $46 million into trusts for future settlement of the Company's Restricted Share Unit ("RSU") and Performance Share Unit ("PSU") obligations.

In 2013, net issuances of long term debt were primarily driven by:

- The issuance of $1.6 billion aggregate principal amount of senior unsecured notes issued to partially fund the acquisition of the outstanding common shares of Shoppers Drug Mart;
- Choice Properties' public offering of $600 million aggregate principal amount of Debentures;
- The issuance of $400 million of senior and subordinated term notes by the Independent Securitization Trust, partially offset by the repayment of its $250 million of senior and subordinated term notes, and
- The repayment of the Company's USD $300 million USPP notes, of which $150 million was paid in advance of the original May 29, 2015 maturity date.
- The repayment of the Company's $200 million, 5.40% medium term note ("MTN") that matured during 2013.

Free Cash Flow[1]

For the periods ended December 28, 2013 and December 29, 2012 (millions of Canadian dollars except where otherwise indicated)	2013 (52 weeks)	2012 (52 weeks)	$ Change	% Change
Free cash flow[1]	$ 489	$ 468	$ 21	4.5%

Free Cash Flow[1] In 2013, free cash flow[1] was $489 million compared to $468 million in 2012. The increase in free cash flow[1] was primarily due to a decrease in fixed assets purchases partially offset by lower cash flows from operating activities described above.

Defined Benefit Pension Plan Contributions During 2014, the Company expects to contribute approximately $50 million (2013 – contributed approximately $99 million) to its registered funded defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors. In 2014, the Company also expects to make contributions to its defined contribution plans and multi-employer pension plans in which it participates as well as make benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefit plans.

(1) See Non-GAAP Financial Measures on page 40.

8.2 Liquidity and Capital Structure

The Company holds significant cash and cash equivalents, short term investments and security deposits denominated in Canadian dollars. The funds are invested in highly liquid marketable short term investments consisting primarily of bankers' acceptances, government treasury bills, corporate commercial paper, bank term deposits and government agency securities. During 2013, cash and cash equivalents, short term investments and security deposits increased by $2,204 million largely driven by key financing activities completed by the Company the financing related to the agreement to acquire Shoppers Drug Mart as described below, and the $660 million and $600 million of proceeds from Choice Properties' IPO and debt offering, respectively, net of the repayment of USD $300 million of USPP notes and a $200 million MTN that matured in 2013.

Shoppers Drug Mart Financing In 2013, the Company amended its Short Form Base Shelf Prospectus dated December 21, 2012 to increase the amount issuable under the prospectus to $2.5 billion from $1.0 billion. Subsequently, the Company entered into committed bank facilities, consisting of a $3.5 billion term loan facility and a $1.6 billion bridge loan facility. The Company subsequently issued $1.6 billion aggregate principal amount of senior unsecured notes under its Short Form Base Shelf Prospectus and concurrently cancelled the $1.6 billion bridge loan facility. These proceeds will be released from escrow upon satisfaction of the applicable release conditions of the agreement and used to partially fund the acquisition of all of the outstanding common shares of Shoppers Drug Mart.

Choice Properties' Prospectus In 2013, Choice Properties filed a Short Form Base Shelf Prospectus allowing for the issuance of up to $2 billion Units and/or debt securities over a 25-month period subject to the availability of funding in capital markets. Subsequent to the end of the year, Choice Properties issued $250 million principal amount of Series C senior unsecured debentures with a 7-year term and a coupon rate of 3.498% per annum and $200 million principal amount of Series D senior unsecured debentures with a 10-year term and a coupon rate of 4.293% per annum, under its Short Form Base Shelf Prospectus.

Committed Facilities In 2013, the Company amended its $800 million committed credit facility ("Credit Facility") to increase the amount to $1 billion, subject to the successful close of the Shoppers Drug Mart transaction, and extended the term to December 31, 2018. In addition, the Company incorporated certain adjustments to exclude the impact of Choice Properties from its covenant calculations. The Company was in compliance with these covenants throughout the year. There were no amounts drawn under the Credit Facility as at December 28, 2013 or December 29, 2012.

In addition, in 2013, Choice Properties entered into an agreement for a $500 million, 5 year senior unsecured committed credit facility provided by a syndicate of lenders. This facility also contains certain financial covenants with which Choice Properties was in compliance throughout 2013. As at December 28, 2013, there were no amounts drawn under this facility.

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 facilities will enable the Company to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plans and financial obligations over the next 12 months. If required, the Company expects it could obtain long term financing through its MTN program. Choice Properties expects to obtain its long term financing primarily through the issuance of equity and unsecured debentures. In addition, the Company expects that it has sufficient financing available to fund the cash portion of the proposed Shoppers Drug Mart purchase price.

Adjusted Debt[(1)] to Adjusted EBITDA[(1)]

	As at December 28, 2013	As at December 29, 2012
Adjusted debt[(1)] to Adjusted EBITDA[(1)]	2.8x	2.1x

The Company monitors its Adjusted Debt[(1)] to Adjusted EBITDA[(1)] ratio as a measure to ensure it is operating under an efficient capital structure. The ratio increased in 2013, driven primarily by the issuance of long term debt related to Choice Properties and the Shoppers Drug Mart transaction. The ratio is expected to further increase upon closing of the Shoppers Drug Mart acquisition as the Company draws up to $3.5 billion of its committed term loan to partially fund the cash consideration. The Company will continue to target leverage ratios consistent with those of investment grade ratings.

(1) See Non-GAAP Financial Measures on page 40.

The following are excluded from Adjusted Debt[(1)]:

Independent Funding Trusts Certain independent franchisees of the Company obtain financing through a structure involving independent funding trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets. These independent funding trusts are administered by a major financial institution. As at December 28, 2013, the independent funding trusts had drawn $475 million (December 29, 2012 – $459 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. The Company intends to renew this committed credit facility, which expires in 2014.

The Company has agreed to provide a credit enhancement of $48 million (2012 – $48 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2012 – 10%) of the principle amount of loans outstanding. As at December 28, 2013, the Company had provided a letter of credit in the amount of $48 million (December 29, 2012 – $48 million). This credit enhancement allows the independent funding trusts to provide financing to the Company's independent franchisees. As well, each independent franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to the Company and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Independent Securitization Trusts The Company, through 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. PC Bank sells and repurchases credit card receivables to Independent Securitization Trusts, including *Eagle* and Other Independent Securitization Trusts, from time to time depending on PC Bank's financing requirements.

The Company has arranged letters of credit on behalf of PC Bank, representing 9% (December 29, 2012 – 9%) of the outstanding securitized liability for the benefit of the Other Independent Securitization Trusts in the amount of $54 million (December 29, 2012 – $81 million). During 2013, PC Bank repurchased $300 million (2012 – nil) of co-ownership interests in the securitized receivables from Other Independent Securitization Trusts and, as a result, the letters of credit outstanding were reduced to $54 million. In the event of a major decline in the income flow from, or in the value of, the securitized credit card receivables, the Other Independent Securitization Trusts can draw upon these letters of credit to recover up to a maximum of the amount outstanding on the letters of credit. Under its securitization programs, PC Bank is required to maintain at all times a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability and was in compliance with this requirement throughout 2013. During 2013, *Eagle* filed a Short Form Base Shelf Prospectus which allows for the potential issuance of up to $1.5 billion of notes over a 25-month period. During 2013, PC Bank amended and extended the maturity date for one of its other Independent Securitization Trust agreements from the third quarter of 2014 to the third quarter of 2015, with no material impact to other terms and conditions.

In 2013, *Eagle* issued $400 million of senior and subordinated term notes with a maturity date of October 17, 2018 at a weighted average interest rate of 2.91%. During 2013, the three-year $250 million senior and subordinated term notes issued by *Eagle* matured and were repaid.

Subsequent to the end of 2013, PC Bank extended the maturity date for two of its Other Independent Securitization Trust agreements from the second quarter of 2015 to the second quarter of 2016, with all other terms and conditions remaining substantially the same.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for 2013 and 2012:

(millions of Canadian dollars)	2013	2012
Balance, beginning of year	$ 303	$ 276
GICs issued	167	76
GICs matured	(40)	(49)
Balance, end of year	$ 430	$ 303

As at December 28, 2013, $52 million in GICs were recorded as long term debt due within one year (December 29, 2012 – $36 million).

Credit Ratings Following a review of the implications of the Company's agreement to acquire Shoppers Drug Mart during the third quarter of 2013, Dominion Bond Rating Service and Standard & Poor's re-confirmed the Company's and Choice Properties' credit ratings of BBB in each case, with a stable trend and outlook, respectively.

(1) See Non-GAAP Financial Measures on page 40.

The following table sets out the current credit ratings of the Company:

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Medium term notes	BBB	Stable	BBB	n/a
Other notes and debentures	BBB	Stable	BBB	n/a
Preferred shares	Pfd-3	Stable	P-3 (high)	n/a

The following table sets out the current credit ratings of Choice Properties:

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

8.3 Share Capital

Outstanding Share Capital and Capital Securities The following table details the outstanding common shares and preferred shares as at December 28, 2013:

	Authorized	Outstanding
Common Shares	Unlimited	282,311,573
First Preferred Shares	1,000,000	nil
Second Preferred Shares, Series A[(i)]	12,000,000	9,000,000

(i) The Second Preferred Shares, Series A are presented as Capital Securities on the consolidated balance sheets.

As at December 28, 2013, a total of 10,995,995 stock options were outstanding, representing 4% of the Company's issued and outstanding common shares. Each stock option is exercisable into one common share of the Company at a price specified in the terms of the option agreement.

Dividends The following table summarizes the Company's cash dividends declared in 2013 and 2012:

	December 28, 2013 (52 weeks)	December 29, 2012 (52 weeks)
Dividends declared per share[(i)] ($):		
Common share	$ 0.94	$ 0.85
Second Preferred Share, Series A[(ii)]	$ 1.49	$ 1.49

(i) The fourth quarter dividends of $0.24 per share declared on common shares have a payment date of December 30, 2013. The fourth quarter dividends of $0.37 per share declared on Second Preferred Shares, Series A have a payment date of January 31, 2014.

(ii) Dividends on Second Preferred Shares, Series A are presented in net interest and other financing charges on the consolidated statements of earnings.

The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board of Directors ("Board"), which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to reduce debt and finance future growth. During the second quarter of 2013, the Board raised the quarterly dividend by approximately 9.1%, to $0.24 per common share.

Subsequent to year end, the Board declared a quarterly dividend of $0.24 per common share payable April 1, 2014, and declared a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable April 30, 2014. At the time such dividends are declared, the Company identifies on its website (loblaw.ca) the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency ("CRA").

Normal Course Issuer Bid In 2013, the Company purchased for cancellation 1,500,000 (2012 – 423,705) common shares under the NCIB resulting in a charge to retained earnings of $64 million (2012 – $14 million) for the premium on the common shares and a reduction in common share capital of $9 million (2012 – $2 million).

In 2013, the Company renewed its NCIB to purchase on the TSX or enter into equity derivatives to purchase up to 14,103,672 of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the TSX, the Company may purchase its shares at the then market price of such shares. In 2013, the Company also entered into an automatic share repurchase agreement under its NCIB that permits the Company to buy back its shares during blackout periods in accordance with predetermined instructions. The Company intends to renew its NCIB in 2014.

In 2013, the Company purchased 1,103,500 common shares under its NCIB for cash consideration of $46 million and placed these shares into trusts for future settlement of the Company's RSU and PSU obligations. During 2013, the activity in these trusts resulted in a net charge to retained earnings of $39 million and a $6 million net reduction in common share capital.

8.4 Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 28, 2013:

Summary of Contractual Obligations

	Payments due by year						
(millions of Canadian dollars)	2014	2015	2016	2017	2018	Thereafter	Total
Long term debt (including fixed interest payments[i])	$ 1,361	$ 742	$ 756	$ 435	$ 1,317	$ 7,746	$ 12,357
Operating leases[ii]	204	186	156	129	106	443	1,224
Contracts for purchases of Investment projects[iii]	53	1	1	—	—	—	55
Purchase obligations[iv]	116	95	61	43	43	—	358
Total contractual obligations	$ 1,734	$ 1,024	$ 974	$ 607	$ 1,466	$ 8,189	$ 13,994

(i) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for Consolidated Structured Entities, mortgages and finance lease obligations.

(ii) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.

(iii) These obligations include agreements for the purchase of real property and capital commitments for construction, expansion and renovation of buildings. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the underlying transactions.

(iv) Include contractual obligations to purchase goods or services of a material amount where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. These purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with relatively insignificant cost or liability to the Company.

At year end, the Company had additional long term liabilities which included defined benefit plan and other long term employee benefit plan liabilities, deferred vendor allowances, Trust Unit Liability and provisions, including insurance liabilities. These long term liabilities have not been included above as the timing and amount of future payments are uncertain.

In addition, in accordance with the July 14, 2013 arrangement agreement between the Company and Shoppers Drug Mart, the Company is required to pay consideration of up to approximately $6.7 billion in cash and issue up to approximately 119.9 million common shares in exchange for all of the outstanding common shares of Shoppers Drug Mart.

9. Financial Derivative Instruments

Cross Currency Swaps In 2013, Glenhuron Bank Limited ("Glenhuron") unwound its cross currency swaps and received a net cash settlement of $76 million, representing the cumulative fair value gain on the swaps. The swaps were offset by the effect of translation gains and losses relating to USD cash and cash equivalents, short term investments and security deposits. As at December 29, 2012, a cumulative unrealized foreign currency exchange rate receivable of $20 million was recorded in prepaid expenses and other assets and $93 million was recorded in other assets related to these swaps.

The following table summarizes the impact to operating income resulting from changes in fair value of the Glenhuron cross currency swaps and the underlying exposures:

(millions of Canadian dollars)	2013	2012
Fair value loss (gain) related to swaps	$ 37	$ (25)
Translation (gain) loss related to the underlying exposures	(33)	27

In 2013, the Company settled its USD $300 million USPP cross currency swaps in conjunction with the settlement of the underlying USD $300 million USPP notes, and received a net cash settlement of $18 million. The USPP cross currency swaps were used to manage the effect of translation (gains) losses on the underlying USD USPP notes in long term debt. As part of the full settlement, the Company settled its USD $150 million USPP cross currency swap, which matured on May 29, 2013. On settlement of the swap, an unrealized fair value gain of $5 million, net of tax of $2 million, which had been deferred in accumulated other comprehensive income was realized in operating income.

As at December 29, 2012, a cumulative unrealized foreign currency exchange rate receivable of $2 million was recorded in prepaid expenses and other assets, and a receivable of $5 million was recorded in other assets, related to the USPP cross currency swaps.

The following table summarizes the impact to operating income resulting from changes in fair value of the USPP cross currency swaps and the underlying exposures:

(millions of Canadian dollars)	2013	2012
Fair value (gain) loss related to swaps[(i)]	$ (11)	$ 7
Translation loss (gain) related to the underlying exposures	14	(6)

(i) Excludes the $7 million gain reclassified from accumulated other comprehensive income in 2013.

Interest Rate Swaps During 2013, the Company settled its notional $150 million in interest rate swaps. As at December 29, 2012, the Company maintained this notional $150 million in interest rate swaps which paid a fixed-rate of interest of 8.38% and had recognized a cumulative loss of $5 million which was recorded in trade payables and other liabilities.

During 2013, the Company recognized a $5 million fair value gain (2012 – $11 million) in operating income related to these swaps.

Equity Forward Contracts During 2013, Glenhuron paid $16 million to settle the remaining equity forwards representing 1,103,500 Loblaw common shares. Glenhuron recognized a nominal loss in operating income (2012 – $5 million gain) related to these forwards. As at December 29, 2012, the cumulative accrued interest and unrealized market loss of $16 million was included in accounts payable and accrued liabilities.

Other Derivatives and Instruments The Company also maintains other financial derivatives including foreign exchange forwards and fuel exchange traded futures and options. During 2013, the Company recognized a $7 million gain (2012 – nominal) in operating income. As at December 28, 2013, a $2 million cumulative unrealized gain was recorded in prepaid expenses and other assets (December 29, 2012 – nominal cumulative unrealized gain).

In connection with the issuance of $1.6 billion of senior unsecured notes in 2013, the Company hedged its exposure to interest rates in advance of the issuance. As this relationship did not qualify for hedge accounting, the resulting $10 million gain on settlement was recorded in operating income.

10. Off-Balance Sheet Arrangements

In the normal course of business, the Company enters into off-balance sheet arrangements including:

Letters of Credit Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and performance guarantees, securitization of PC Bank's credit card receivables and third party financing made available to the Company's independent franchisees. The aggregate gross potential liability related to the Company's letters of credit is approximately $470 million (2012 – $477 million).

As at December 28, 2013, the Company had agreements to cash collateralize certain of these letters of credit up to an amount of $136 million (December 29, 2012 – $133 million), of which $102 million (December 29, 2012 – $97 million) was deposited with major financial institutions and classified as security deposits.

Guarantees In addition to the letters of credit mentioned above, the Company has entered into various guarantee arrangements including obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of business. Additionally, the Company has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated for accepting PC Bank as a card member and licensee of MasterCard®. During 2013, the Company decreased its guarantee on behalf of PC Bank to MasterCard® International Incorporated to USD $170 million (2012 – USD $230 million).

11. Quarterly Results of Operations

11.1 Results by Quarter

Under an accounting convention common in the food retail industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. 2013 and 2012 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.

Summary of Consolidated Quarterly Results

					2013					2012[1]
(millions of Canadian dollars except where otherwise indicated) (unaudited)	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited) (52 weeks)	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited) (52 weeks)
Revenue	$ 7,202	$ 7,520	$ 10,009	$ 7,640	$ 32,371	$ 6,937	$ 7,375	$ 9,827	$ 7,465	$ 31,604
Net earnings	$ 171	$ 178	$ 154	$ 127	$ 630	$ 122	$ 156	$ 217	$ 139	$ 634
Net earnings per common share:										
Basic ($)	$ 0.61	$ 0.63	$ 0.55	$ 0.45	$ 2.24	$ 0.43	$ 0.55	$ 0.77	$ 0.49	$ 2.25
Diluted ($)	$ 0.60	$ 0.63	$ 0.54	$ 0.45	$ 2.22	$ 0.43	$ 0.55	$ 0.75	$ 0.46	$ 2.23
Average national food price inflation (as measured by CPI)	1.4%	1.5%	0.9%	0.9%	1.1%	3.7 %	2.5%	1.8 %	1.5%	2.3 %
Retail same-store sales[2] growth (decline)	2.8%	1.1%	0.4%	0.6%	1.1%	(0.7)%	0.2%	(0.2)%	0.0%	(0.2)%

The Company's average quarterly internal retail food price inflation for 2012 and 2013 remained lower than the average quarterly national food price inflation as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

Over the past eight quarters, net retail square footage increased by 0.7 million square feet to 51.9 million square feet.

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013" section on page 37.

(2) For financial definitions and ratios refer to the Glossary of Terms on page 109.

Fluctuations in quarterly net earnings during 2013 reflect the underlying operations of the Company and are impacted by seasonality, which is greatest in the fourth quarter and least in the first quarter, and the timing of holidays and were impacted by the following significant items:

- Choice Properties start-up costs and IPO transaction costs incurred in 2013;
- Choice Properties general and administrative costs beginning in 2013;
- Costs related to the acquisition of Shoppers Drug Mart beginning in 2013;
- Gains related to defined benefit plan amendments recorded in 2013;
- Early debt settlement costs incurred in 2013;
- The fair value adjustment of the Trust Unit Liability beginning in 2013;
- Costs related to equity-based compensation net of equity forwards;
- Restructuring costs, including the costs associated with reducing head office and administrative positions;
- Fixed asset and other related impairments, net of recoveries;
- Start-up costs associated with the launch of the Joe Fresh brand in the United States incurred in the fourth quarter of 2011;
- Costs related to certain prior years' commodity tax matters incurred in the second quarter of 2011; and
- A gain recognized related to the sale of a portion of a property in North Vancouver, British Columbia in the third quarter of 2011.

11.2 Fourth Quarter Results

The following is a summary of selected consolidated unaudited financial information for the fourth quarter of 2013.

Selected Consolidated Information for the Fourth Quarter

For the periods ended December 28, 2013 and December 29, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2013 (12 weeks)	2012[1] (12 weeks)	$ Change	% Change
Revenue	$ 7,640	$ 7,465	175	2.3 %
Operating income	314	261	53	20.3 %
Adjusted operating income[2]	322	325	(3)	(0.9)%
Adjusted operating margin[2]	4.2%	4.4%		
Adjusted EBITDA[2]	$ 518	$ 512	$ 6	1.2 %
Adjusted EBITDA margin[2]	6.8%	6.9%		
Net interest expense and other financing charges	$ 141	$ 84	$ 57	67.9 %
Income taxes	46	38	8	21.1 %
Net earnings	127	139	(12)	(8.6)%
Basic net earnings per common share[3] ($)	$ 0.45	$ 0.49	$ (0.04)	(8.2)%
Adjusted basic net earnings per common share[2] ($)	0.65	0.66	(0.01)	(1.5)%
Cash flows from (used in):				
Operating activities	$ 738	$ 605	$ 133	22.0 %
Investing activities	471	(223)	694	311.2 %
Financing activities	(387)	(54)	(333)	(616.7)%
Dividends declared per common share ($)	$ 0.24	$ 0.22	$ 0.02	9.1 %
Dividends declared on Second Preferred Share, Series A ($)	0.37	0.37	—	— %

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013" section on page 37.

(2) See Non-GAAP Financial Measures on page 40.

(3) For financial definitions and ratios refer to the Glossary of Terms on page 109.

The $175 million increase in revenue compared to the fourth quarter of 2012 was primarily driven by increases in the Company's Retail and Financial Services segments.

Operating income increased by $53 million compared to the fourth quarter of 2012. The change in operating income was positively impacted by favourable year-over-year changes in fixed asset and other related impairments, net of recoveries, and lower restructuring costs, partially offset by lower gains on disposal of assets, costs related to the acquisition of Shoppers Drug Mart, higher year-over-year equity-based compensation charges and general and administrative costs related to Choice Properties. Adjusted operating income[(1)] decreased by $3 million compared to the fourth quarter of 2012, primarily driven by a decrease in the Retail segment's adjusted operating income[(1)], partially offset by an increase in the Financial Services segment's adjusted operating income[(1)]. Adjusted operating margin[(1)] was 4.2% for the fourth quarter of 2013 compared to 4.4% in the same quarter in 2012.

Net interest and other financing charges increased by $57 million compared to the fourth quarter of 2012. Net interest and other financing charges included an unfavourable $34 million fair value adjustment related to the Trust Unit Liability, for the change in the fair value of Choice Properties Units held by unitholders other than the Company, and net interest of $14 million relating to indebtedness incurred to finance the acquisition of Shoppers Drug Mart. Excluding these impacts, net interest expense and other financing charges increased by $9 million, driven primarily by Unit distributions by Choice Properties.

Income tax expense for the fourth quarter 2013 was $46 million (2012 – $38 million) and the effective income tax rate was 26.6% (2012 – 21.5%). The increase in the effective income tax rate over the fourth quarter of 2012 was primarily due to an increase in non-deductible amounts (including fair value adjustments on the Trust Unit Liability), partially offset by an increase in income tax recoveries related to prior year matters.

Net earnings decreased by $12 million compared to the fourth quarter of 2012, primarily driven by the increase in net interest expense and other financing charges described above, partially offset by the increase in operating income. Adjusted net earnings[(1)] decreased by $2 million compared to the fourth quarter of 2012, primarily driven by the impact of the increase in net interest expense and other financing charges after excluding Shoppers Drug Mart related costs and the fair value adjustment related to the Trust Unit Liability described above, and the decrease in adjusted operating income[(1)].

Basic net earnings per common share[(2)] were $0.45 in the fourth quarter of 2013 compared to $0.49 in the fourth quarter of 2012. Adjusted basic net earnings per common share[(1)] were $0.65 in the fourth quarter of 2013 compared to $0.66 in the fourth quarter of 2012.

In the fourth quarter of 2013, the Company invested $304 million in capital expenditures.

During the fourth quarter of 2013, the Company announced the reduction of approximately 275 store-support positions, and incurred a charge of $32 million associated with this restructuring (2012 – $61 million).

Cash flows from operating activities for the fourth quarter of 2013 were $738 million, an increase of $133 million compared to $605 million in 2012. The increase in cash flows from operating activities was a result of proceeds from the settlement of cross currency swaps and a more moderate investment in credit card receivables, offset by lower cash earnings and a change in the Company's investment in working capital.

The decrease in working capital investments in the fourth quarter of 2013 was affected by increases in accounts payable as a result of active vendor management, partially offset by increases in accounts receivable as a result of increases in vendor related receivables and the timing of the collection of other taxes recoverable.

Cash flows from investing activities in the fourth quarter of 2013 were $471 million compared to cash flows used in investing activities of $223 million in the fourth quarter of 2012. The change was primarily driven by a decrease in short term investments and the release of funds from security deposits in the fourth quarter of 2013 for the repayment of *Eagle* notes.

Cash flows used in financing activities in the fourth quarter of 2013 were $387 million, an increase of $333 million compared to $54 million in the same period in 2012. The increase in cash flows used in financing activities was primarily due to the repayment of short term debt and net repayments of long term debt in the fourth quarter of 2013 compared to the fourth quarter of 2012.

(1) See Non-GAAP Financial Measures on page 40

(2) For financial definitions and ratios refer to the Glossary of Terms on page 109.

Retail Segment Fourth Quarter Results of Operations

For the periods ended December 28, 2013 and December 29, 2012 (millions of Canadian dollars except where otherwise indicated) (unaudited)	2013 (12 weeks)	2012 (12 weeks)	$ Change	% Change
Sales	$ 7,419	$ 7,289	$ 130	1.8 %
Gross profit	1,643	1,575	68	4.3 %
Operating income	270	227	43	18.9 %
Adjusted operating income	273	291	(18)	(6.2)%
Adjusted EBITDA	464	476	(12)	(2.5)%

For the periods ended December 28, 2013 and December 29, 2012 (unaudited)	2013 (12 weeks)	2012 (12 weeks)
Same-store sales[(1)] growth	0.6%	—%
Gross profit percentage	22.1%	21.6%
Adjusted operating margin[(2)]	3.7%	4.0%
Adjusted EBITDA margin[(2)]	6.3%	6.5%

In the fourth quarter of 2013, the increase in Retail sales of $130 million, or 1.8%, over the fourth quarter of 2012 was a result of the following factors:

- Same-store sales[(1)] growth was 0.6% (2012 – flat) and excluding gas bar was 0.6% (2012 – decline of 0.1%), positively impacted by the timing of the Thanksgiving holiday, estimated to be between 0.6% and 0.8%, and negatively impacted by an ice storm in Eastern Canada and a strike in Western Canada which negatively impacted same-store sales[(1)] growth by approximately 0.2% and 0.1%, respectively. The range of same-store sales[(1)] growth for the quarter, after the impact of these items, was approximately 0.1% to 0.3%;
- Sales growth in food was moderate;
- Sales in drugstore declined marginally;
- Sales in general merchandise, excluding apparel, declined marginally;
- Sales growth in apparel was modest;
- Sales growth in gas bar was modest;
- The Company's average annual internal food price inflation during fourth quarter of 2013 was lower than the average quarterly national food price inflation of 0.9% (2012 – 1.5%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- 26 corporate and franchise stores were opened and 13 corporate and franchise stores were closed in the last 12 months, resulting in a net increase of 0.4 million square feet, or 0.8%.

In the fourth quarter of 2013, gross profit increased by $68 million compared to the fourth quarter of 2012. Gross profit percentage in the fourth quarter of 2013 was 22.1%, up 50 basis points compared to the fourth quarter of 2012. The improvements in gross profit and gross profit percentage were primarily driven by improved shrink and transportation costs, and margin improvements in general merchandise, partially offset by the negative impact of continued investments in food margins.

Operating income increased by $43 million compared to the fourth quarter of 2012, primarily driven by favourable year-over-year changes in fixed asset and other related impairments, net of recoveries and lower restructuring costs, partially offset by lower gains on disposal of assets, and costs related to the acquisition of Shoppers Drug Mart. Adjusted operating income[(2)] decreased by $18 million compared to the fourth quarter of 2012, primarily driven by investments in, and changes to the value of the Company's franchise business, costs related to the growth in certain of the Company's emerging businesses and higher other operating costs, including depreciation and amortization, partially offset by higher gross profit and labour efficiencies. For the fourth quarter of 2013, adjusted operating margin[(2)] was 3.7% compared to 4.0% in the same period in 2012.

Adjusted EBITDA[(2)] decreased by $12 million compared to the fourth quarter of 2012. For the fourth quarter of 2013, adjusted EBITDA[(2)] margin was 6.3% compared to 6.5% in the same period in 2012. Retail segment depreciation and amortization increased by $6 million compared to the fourth quarter of 2012.

(1) For financial definitions and ratios refer to the Glossary of Terms on page 109.

(2) See Non-GAAP Financial Measures on page 40.

Financial Services Segment Fourth Quarter Results of Operations

For the periods ended December 28, 2013 and December 29, 2012 (millions of Canadian dollars except where otherwise indicated) (unaudited)	2013 (12 weeks)	2012 (12 weeks)	$ Change	% Change
Revenue	$ 204	$ 176	$ 28	15.9%
Operating income	43	34	9	26.5%
Earnings before income taxes	29	23	6	26.1%

(millions of Canadian dollars except where otherwise indicated)	As at December 28, 2013	As at December 29, 2012	$ Change	% Change
Average quarterly net credit card receivables	$ 2,345	$ 2,105	$ 240	11.4%
Credit card receivables	2,538	2,305	233	10.1%
Allowance for credit card receivables	47	43	4	9.3%
Annualized yield on average quarterly gross credit card receivables[(1)]	13.6%	12.8%		
Annualized credit loss rate on average quarterly gross credit card receivables[(1)]	4.2%	4.3%		

Revenue for the fourth quarter of 2013 increased by 15.9% compared to the fourth quarter of 2012. This increase was primarily driven by higher interest income from higher credit card receivable balances. Higher *PC* Telecom revenues resulting from growth in the Mobile Shop business also contributed to the increase.

Operating income and earnings before income taxes increased by $9 million and $6 million, respectively, compared to the fourth quarter of 2012. These increases were mainly attributable to the higher revenue described above, partially offset by higher operating costs and continued investments in marketing and customer acquisitions.

As at December 28, 2013, credit card receivables were $2,538 million, an increase of $233 million compared to December 29, 2012. This increase was primarily driven by growth in the active customer base as a result of continued investments in customer acquisitions and marketing initiatives. As at December 28, 2013, the allowance for credit card receivables was $47 million, an increase of $4 million compared to December 29, 2012, primarily due to the growth in the credit card receivables portfolio.

(1) For financial definitions and ratios refer to the Glossary of Terms on page 109.

Choice Properties Segment Fourth Quarter Results of Operations

For the periods ended December 28, 2013 and December 29, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2013[1] (12 weeks)	2012 (12 weeks)
Revenue	$ 165	$ —
Operating income	186	—
Adjusted operating income[2]	191	—
Net interest expense and other financing charges	193	—

For the periods ended December 28, 2013 and December 29, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2013[1] (12 weeks)	2012 (12 weeks)
Net operating income[2]	$ 114	$ —
Funds from operations[2]	83	—
Adjusted funds from operations[2]	65	—
Adjusted funds from operations per unit diluted[2] ($)	0.18	—
Adjusted funds from operations payout ratio[2]	92.3%	—

Revenue for the fourth quarter of 2013 was $165 million, of which $148 million was received from the Retail segment. Revenue consists of base rent, operating cost and property tax recoveries.

Operating income for the fourth quarter of 2013 was $186 million and included $5 million of selling, general and administrative costs. Adjusted operating income[2] was $191 million and included a $69 million favourable fair value adjustment on investment properties, which are measured by the Company at cost.

Net operating income[2] for the fourth quarter of 2013 was $114 million, which consists of cash rental revenue less property operating costs.

Funds from operations[2] and adjusted funds from operations[2] for the fourth quarter of 2013 were $83 million and $65 million respectively.

Results of Choice Properties operations for the fourth quarter of 2013 were in line with the financial forecast included in Choice Properties' equity and debt prospectuses dated June 26, 2013.

In the fourth quarter of 2013, Choice Properties acquired 11 investment properties from the Company for an aggregate purchase price of approximately $187 million, which was settled through the issuance of 11,576,883 Class B Limited Partnership units and cash. In addition, Choice Properties acquired a property from a third party for approximately $2 million, which was settled in cash.

(1) Results are for the period ended December 31, 2013, consistent with Choice Properties' fiscal calendar. Adjustments to December 28, 2013 are included in Consolidation and Eliminations.

(2) See Non-GAAP Financial Measures on page 40.

12. Disclosure Controls and Procedures

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.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Executive Chairman, as Chief Executive Officer, and the Chief Financial Officer have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 28, 2013.

13. Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Executive Chairman, as Chief Executive Officer, and the Chief Financial Officer have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 1992. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 28, 2013.

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. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Additionally, management is required to use judgment in evaluating controls and procedures.

Changes in Internal Control over Financial Reporting Management has also evaluated whether there were changes in the Company's internal controls over financial reporting during the period beginning on October 6, 2013 and ending on December 28, 2013, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management determined that no material changes occurred during this period.

14. Enterprise Risks and Risk Management

The Company is committed to establishing a framework that ensures risk management is an integral part of its activities. To ensure the continued growth and success of the Company, risks are identified and managed through an Enterprise Risk Management ("ERM") program. The Board has approved an ERM policy and oversees the ERM program through approval of the Company's risks and risk prioritization. The ERM program assists all areas of the business in managing appropriate levels of risk tolerance by bringing a systematic approach, methodology and tools for evaluating, measuring and monitoring key risks. The results of the ERM program and other business planning processes are used to identify emerging risks to the Company, prioritize risk management activities and develop a risk-based internal audit plan.

Risks are not eliminated through the ERM program. Risks are identified and managed within understood risk tolerances. The ERM program is designed to:

- promote a culture of awareness of risk management and compliance within the Company;
- facilitate corporate governance by providing a consolidated view of risks across the Company and insight into the methodologies for identification, assessment, measurement and monitoring of the risks;
- assist in developing consistent risk management methodologies and tools across the organization; and
- enable the Company to focus on its key risks in the business planning process and reduce harm to financial performance through responsible risk management.

Risk identification and assessments are important elements of the Company's ERM framework. An annual ERM assessment is completed to assist in the update and identification of internal and external risks, which are both strategic and operational in nature. Key risks affecting the Company are prioritized under five categories: financial, operational, regulatory, human capital and reputational risks. The annual ERM assessment is carried out through interviews, surveys and facilitated workshops with management and the Board. Risks are assessed and evaluated based on the Company's vulnerability to the risk and the potential impact that the underlying risks would have on the Company's ability to execute its strategies and achieve its objectives. Risk owners are assigned relevant risks and key risk indicators are developed. Management provides a semi-annual update to a Committee of the Board on the status of the key risks based on significant changes from the prior update, anticipated impacts in future quarters and significant changes in key risk indicators. In addition, the long term risk level is assessed to monitor potential long term risk impacts, which may assist in risk mitigation planning activities. Accountability for oversight of the management of each risk is allocated by the Board either to the full Board or to a Committee of the Board.

The operating, financial, regulatory, human capital and reputational risks and risk management strategies are discussed below. Any of these risks has the potential to negatively affect the Company and its financial performance. The Company has risk management strategies, including insurance programs. However, there can be no assurance that the associated risks will be mitigated or will not materialize or that events or circumstances will not occur that could negatively affect the Company's financial condition or performance.

14.1 Operating Risks and Risk Management

The following is a summary of the Company's operating risks which are discussed in detail below:

Acquisition of Shoppers Drug Mart Corporation	Merchandising
Systems Implementations	Vendor Management and Third Party Service Providers
Change Management	Colleague Retention and Succession Planning
Information Integrity and Reliability	Distribution and Supply Chain
Availability, Access and Security of Information Technology	Disaster Recovery and Business Continuity
Food Safety and Public Health	Privacy and Information Security
Labour Relations	Franchisee Independence and Relationships
Competitive Environment	Environmental
Economic Environment	Trademark and Brand Protection
Regulatory and Tax	Defined Benefit Pension Plan Contributions
Inventory Management and Valuation	Multi-Employer Pension Plans

Discussion of Operating Risks and Risk Management Strategies

Acquisition of Shoppers Drug Mart Corporation On July 14, 2013, the Company entered into an arrangement agreement to acquire all of the outstanding common shares of Shoppers Drug Mart for consideration of up to approximately $6.7 billion of cash and the issuance of up to approximately 119.9 million common shares. The transaction is subject to various regulatory approvals, including approvals under the *Competition Act* (Canada) and by the TSX, and the fulfillment of certain other closing conditions customary in transactions of this nature. The Company anticipates that the transaction will be completed during the first quarter of 2014.

The process of review under the *Competition Act* (Canada) is proceeding as expected. There is no certainty as to the outcome of the review on the Company and whether such outcome could affect properties held by either Choice Properties or by Loblaw. At this time, the Company has no reason to believe that any such outcome would be material to the Company.

The successful execution and implementation of the acquisition will require significant effort on the part of management of the Company. Failure to properly execute and implement this transaction or realize the anticipated strategic benefits or operational, competitive and cost synergies could adversely affect the reputation, operations and financial performance of the Company.

Information on risks and uncertainties related to Shoppers Drug Mart are disclosed in the Information Statement filed by the Company on August 20, 2013.

Systems Implementations The Company continues to undertake a major upgrade of its IT infrastructure. Completing the IT systems deployment will require continued focus and investment. Failure to properly execute and implement these systems, including failure to successfully migrate from legacy systems to the new IT systems or minimize disruption to the Company's current systems during the implementation of the new systems could result in a lack of accurate data to enable management to effectively manage day-to-day operations of the business causing significant disruptions to the business and potential financial losses. Failure to continue to implement appropriate processes to support the new systems could result in inefficiencies and duplication in processes, which could adversely affect the reputation, operations and financial performance of the Company.

Change Management Significant initiatives within the Company, including the execution of the IT infrastructure plan, and planning for the acquisition of Shoppers Drug Mart, are underway. Ineffective change management could result in disruptions to the operations of the business or negatively affect the ability of the Company to implement and achieve its long term strategic objectives. 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 achieve the expected cost savings and other benefits of its initiatives. Failure to properly execute the various processes will increase the risk of customer dissatisfaction, which in turn could negatively affect the reputation, operations and financial performance of the Company.

Information Integrity and Reliability Management depends on relevant and reliable information for decision making purposes, including key performance indicators and financial reporting. A lack of relevant and reliable information that enables management to effectively manage the business could preclude the Company from optimizing its overall performance. Any significant loss of data or failure to maintain reliable data could negatively affect the reputation, operations and financial performance of the Company.

Availability, Access and Security of Information Technology The Company is reliant on the continuous and uninterrupted operations of its IT systems. Point of sale availability, 24/7 user access and security of all IT systems are critical elements to the operations of the Company. Any IT failure pertaining to availability, access or system security could result in disruption for the customer and could negatively affect the reputation, operations and financial performance of the Company.

Food Safety and Public Health The Company is subject to risks associated with food safety and general merchandise product defects, including the Company's control brand products. The Company could be adversely affected in the event of a significant outbreak of food-borne illness or other public health concerns related to food or general merchandise products. The occurrence of such events or incidents could result in harm to customers, negative publicity or damage to the Company's brands and could lead to unforeseen liabilities from legal claims or otherwise. Failure to trace or locate any contaminated or defective products could affect the Company's ability to be effective in a recall situation. Any of these events, as well as the failure to maintain the cleanliness and health standards at store level, could negatively affect the reputation, operations and financial performance of the Company.

Labour Relations A majority of the Company's store level and distribution centre workforce is unionized. There can be no assurance as to the outcome of labour negotiations or the timing of their completion. Failure to renegotiate collective agreements could result in work stoppages or slowdowns, and if they occur, they could negatively affect the reputation, operations and financial performance of the Company.

Competitive Environment The retail industry in Canada is highly competitive. If the Company is ineffective in responding to consumer trends or in executing its strategic plans its financial performance could be negatively affected.

The Company's competitors include traditional supermarket operators, as well as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drugstore and general merchandise. Others remain focused on supermarket-type merchandise. The Company is subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery market. The Company's inability to effectively predict market activity or compete effectively with its current or future competitors could result in, among other things, reduced market share and lower pricing in response to its competitors' pricing activities. Failure by the Company to sustain its competitive position could negatively affect the financial performance of the Company.

Economic Environment Economic factors that impact consumer spending patterns could deteriorate or remain unpredictable due to global, national or regional economic volatility. These factors could negatively affect the Company's revenue and margins. Inflationary trends are unpredictable and changes in the rate of inflation or deflation will affect consumer prices, which in turn could negatively affect the financial performance of the Company.

Regulatory and Tax Changes to any of the laws, rules, regulations or policies (collectively, "laws") applicable to the Company's business, including income, capital, commodity, property and other taxes, and laws affecting the production, processing, preparation, distribution, packaging and labelling of products, could have an adverse impact on the financial or operational performance of the Company. In the course of complying with such changes, the Company could incur significant costs. Changing laws or interpretations of such laws or enhanced enforcement of existing laws could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and ability to efficiently conduct business. Failure by the Company to comply with applicable laws and orders in a timely manner could subject the Company to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could negatively affect the reputation, operations and financial performance of the Company.

The Company is subject to tax audits from various government and regulatory agencies on an ongoing basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments. These reassessments could have a material impact on the Company in future periods. In 2012, the Company received indication from the CRA that the CRA intends to proceed with a reassessment of the tax treatment of the Company's wholly owned subsidiary, Glenhuron. At this stage, no reassessment has yet been received, and accordingly, it is not possible to quantify the amount of any potential reassessment. While the Company does not expect the ultimate outcome to be material, such matters cannot be predicted with certainty and could result in a material charge for the Company in future periods.

In 2013, all provinces and territories reduced the reimbursement rates for pharmacies on six common generic prescription drugs and certain other provinces implemented further generic prescription drug reimbursement rate reductions. In addition, Ontario eliminated all professional allowances paid by drug manufacturers to pharmacies. These actions, and any potential further announcements, impact pharmacy sales and therefore could have an adverse effect on the financial performance of the Company. The acquisition of Shoppers Drug Mart will increase the Company's exposure to this risk.

PC Bank operates in a highly regulated environment and a failure by it to comply, understand, acknowledge and effectively respond to applicable regulators could result in monetary penalties, regulatory intervention and reputational damage.

Choice Properties is currently classified as a "unit trust" and a "mutual fund trust" under the Income Tax Act. It also qualifies for the Real Estate Investment Trust ("REIT") Exception under the Income Tax Act and as such is not subject to specified investment flow-through rules ("SIFT Rules"). Should Choice Properties cease to qualify for these classifications and exceptions, the taxation of Choice Properties and unitholders, including Loblaw, could be materially adversely different in certain respects, and therefore could have a material adverse effect on the trading price of the Units.

Inventory Management and Valuation Inappropriate inventory management could lead to excess inventory or a shortage of inventory, which may impact customer satisfaction and the overall financial performance of the Company. The Company may hold excess inventory that cannot be sold profitably or which could increase levels of inventory shrink. Failure to manage inventory properly could negatively affect the operations and financial performance of the Company.

With the upgrade of its IT infrastructure, the Company expects to complete the conversion of its corporate retail stores to a perpetual inventory management system during 2014. The Company currently does not have sufficient information to determine whether there will be any changes to its estimate of average cost of its inventory. Any such difference could be material and therefore could negatively affect both the carrying amount of the Company's inventory and the financial results of the Company.

Merchandising The Company could have goods and services that customers do not want or need, are not reflective of current trends in customers' tastes, habits, or regional preferences, are priced at a level customers are not willing to pay, are late in reaching the market or do not have optimal commercial product placement on store shelves. Innovation is critical if the Company is to respond to customer demands and stay competitive in the marketplace. If merchandising efforts are not effective or are unresponsive to customer demands, the operations and financial performance of the Company will be negatively affected.

Vendor Management and Third Party Service Providers The Company relies on vendors, including offshore vendors in both mature and developing markets, to provide the Company with goods and services. Offshore sourcing increases certain risks to the Company, including risks associated with food safety and general merchandise product defects, non-compliance with ethical business practices and inadequate supply of products. Although contractual arrangements, sourcing guidelines, supplier audits and Corporate Social Responsibility guidelines are in place, the Company has no direct influence over how vendors are managed. Negative events affecting vendors or inefficient, ineffective or incomplete vendor management strategies, policies and/or procedures could adversely impact the Company's reputation and impair the Company's ability to meet customer needs or control costs and quality, which could negatively affect the reputation, operations and financial performance of the Company.

The Company also uses third party suppliers, carriers, logistic service providers and operators of warehouses and distribution facilities, including for product development, design and sourcing of the Company's control brand apparel products. Ineffective selection, contract terms or relationship management could impact the Company's ability to source control brand products, to have products available for customers, to market to customers or to operate efficiently and effectively. Disruption in services from third party suppliers could interrupt the delivery of merchandise to stores, thereby negatively affecting the operations and financial performance of the Company.

President's Choice Financial banking services are provided by a major Canadian chartered bank. PC Bank uses third party service providers to process credit card transactions, operate call centres and operationalize certain risk management strategies for the *President's Choice Financial* MasterCard®. PC Bank and the Company actively manage and monitor their relationships with all third party service providers and PC Bank has an outsourcing risk policy and a vendor governance team that provides regular reports on vendor governance and annual vendor risk assessments. Despite these activities, a significant disruption in the services provided by the chartered bank or by third party service providers would negatively affect the financial performance of PC Bank and the Company.

The Company relies on third parties for investment management, custody and other services for its cash equivalents, short term investments, security deposits and pension assets. Any disruption in the services provided by these suppliers could adversely affect the return on these assets or liquidity of the Company.

Colleague Retention and Succession Planning Effective succession planning for senior management and colleague retention are essential to sustaining the growth and success of the Company. In addition, loss of talent to the competition can be a significant risk to the Company's business strategy. If the Company is not effective in establishing appropriate succession planning processes and retention strategies, it could lead to a lack of requisite knowledge, skills and experience on the part of management. This, in turn, could adversely affect the Company's ability to execute its strategies, and could negatively affect its reputation, operations and financial performance.

Distribution and Supply Chain Failure to continue to improve the Company's supply chain could adversely affect the Company's capacity to effectively and efficiently attract and retain current and potential customers. Any delay or disruption in the flow of goods to stores, could negatively affect the operations and financial performance of the Company.

Disaster Recovery and Business Continuity The Company's ability to continue critical operations and processes could be negatively impacted by adverse events resulting from various incidents, including severe weather, work stoppages, prolonged IT systems failure, power failures, border closures or a pandemic or other national or international catastrophe. Business interruptions, crises or potential disasters could negatively affect the reputation, operations and financial performance of the Company.

Privacy and Information Security The Company is subject to various laws regarding the protection of personal information of its customers, cardholders and colleagues and has adopted a Privacy Policy setting out guidelines for the handling of personal information. The Company's IT systems contain personal information of customers, cardholders and colleagues. Any failures or vulnerabilities in these systems or non-compliance with laws or regulations, including those in relation to personal information belonging to the Company's customers and colleagues, could negatively affect the reputation, operations and financial performance of the Company.

Franchisee Independence and Relationships A substantial portion of the Company's revenues and earnings comes from amounts paid by franchisees. Franchisees are independent businesses and, as a result, their operations may be negatively affected by factors beyond the Company's control, which in turn could negatively affect the Company's reputation, operations and financial performance. Revenues and earnings could also be negatively affected, and the Company's reputation could be harmed, if a significant number of franchisees were to experience operational failures, health and safety exposures or were unable to pay the Company for products, rent or fees. The Company's franchise system is also subject to franchise legislation enacted by a number of provinces. Any new legislation or failure to comply with existing legislation could negatively affect operations and could add administrative costs and burdens, any of which could affect the Company's relationship with its franchisees. The Company provides various services to the franchisees to assist with management of store operations and dedicated personnel manage the Company's obligations to its franchisees. Despite these efforts, relationships with franchisees could pose significant risks if they are disrupted, which could negatively affect the reputation, operations and financial performance of the Company. Supply chain or system changes by the Company could cause or be perceived to cause disruptions to franchise operations and could result in negative effects on franchisee financial performance. Reputational damage or adverse consequences for the Company, including litigation and disruption to revenue from franchise stores could result.

Environmental The Company, in conjunction with Choice Properties, maintains a large portfolio of real estate and other facilities and is subject to environmental risks associated with the contamination of such properties and facilities, whether by previous owners or occupants, neighbouring properties or by the Company itself. In particular, the Company has a number of underground storage tanks, the majority of which are used for the retailing of automotive fuel or for its supply chain transport fleets. Contamination resulting from leaks from these tanks is possible. The Company also operates refrigeration equipment in its stores and distribution centres to preserve perishable products as it passes through the supply chain and ultimately to consumers. These systems contain refrigerant gases which could be released if equipment fails or leaks. A release of these gases could have adverse effects on the environment. Failure to properly manage any of these environmental risks could negatively affect the reputation, operations and financial performance of the Company.

The Company is subject to legislation that imposes liabilities on retailers, brand owners and importers for costs associated with recycling and disposal of consumer goods packaging and printed materials distributed to consumers. There is a risk that the Company will be subject to increased costs associated with these laws. In addition, the Company could be subject to increased or unexpected costs associated with environmental incidents and the related remediation activities, including litigation and regulatory related costs, all of which could negatively affect the reputation and financial performance of the Company.

Trademark and Brand Protection A decrease in value of the Company's trademarks, banners or control brands as a result of adverse events, including third party infringement, changes to the branding strategies or otherwise, could negatively affect the reputation, operations and financial performance of the Company.

Defined Benefit Pension Plan Contributions The Company manages the assets in its registered defined benefit pension plans by engaging professional investment managers who operate under prescribed investment policies and procedures in respect of permitted investments and asset allocations. Future contributions to the Company's registered defined benefit pension plans are impacted by a number of variables, including the investment performance of the plans' assets and the discount rate used to value the liabilities of the plans. The Company regularly monitors and assesses plan performance and the impact of changes in participant demographics, changes in capital markets and other economic factors that may impact funding requirements, net defined benefit costs and actuarial assumptions. If capital market returns are below assumed levels, or if discount rates decrease, the Company could be required to make contributions to its registered funded defined benefit pension plans in excess of those currently expected, which in turn could negatively affect the financial performance of the Company.

Multi-Employer Pension Plans In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits to union employees pursuant to provisions of collective bargaining agreements. Approximately 39% (2012 – 40%) of employees of the Company and of its independent franchisees participate in these plans. These plans are administered by independent boards of trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company has a representative on the board of trustees of these plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements; however, poor performance of these plans could have an adverse impact on the Company's employees and former employees who are members of these plans or could result in changes to the terms and conditions of participation in these plans, which in turn could negatively affect the financial performance of the Company.

The Company, together with its independent franchisees, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), with approximately 53,000 (2012 – 54,000) employees as members. In 2013, the Company contributed $54 million (2012 – $52 million) to CCWIPP. The CCWIPP has historically been underfunded as the actuarial accrued benefit obligations have exceeded the value of the assets held in trust. Any benefit reductions would negatively affect the retirement benefits of the Company's employees, which in turn could negatively affect their morale and productivity and, in turn, could negatively affect the Company's reputation.

14.2 Financial Risks and Risk Management

The Company is exposed to a number of financial risks, including those associated with financial instruments, which have the potential to affect its operating and financial performance. The Company uses over-the-counter derivative instruments to offset certain of these risks. Policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. The fair value of derivative instruments is subject to changing market conditions which could negatively impact the financial performance of the Company.

The following is a summary of the Company's financial risks which are discussed in detail below:

Level of Indebtedness and Liquidity Risk	Foreign Currency Exchange Rate Risk
Capital Availability Risk	Commodity Price Risk
Credit Risk	Choice Properties Unit Price
Interest Rate Risk	

Discussion of Financial Risks and Risk Management Strategies

Level of Indebtedness and Liquidity Risk To fund the cash portion of the Shoppers Drug Mart acquisition, the Company will utilize excess cash and significantly increase its indebtedness. There can be no assurances that the Company will generate sufficient free cash flow to reduce indebtedness and maintain adequate cash reserves which could result in adverse consequences on its credit ratings and its cost of funding.

Liquidity risk is the risk that the Company cannot meet its demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Liquidity risk is mitigated by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions, and by diversifying sources of funding, including the Company's Credit Facility and maintaining a well-diversified maturity profile of debt and capital obligations. Despite these mitigation strategies, if the Company, PC Bank or Choice Properties' financial performance and condition deteriorate or downgrades in the Company's or Choice Properties' current credit ratings occur, the Company, PC Bank or Choice Properties' ability to obtain funding from external sources could be restricted.

Capital Availability Risk The real estate industry is highly capital intensive. Choice Properties requires access to capital to maintain its properties, refinance its indebtedness as well as to fund its growth strategy and certain capital expenditures from time to time. Although Choice Properties expects to have access to its credit facility, there can be no assurance that it will otherwise have sufficient capital or access to capital on acceptable terms for future property acquisitions, refinancing indebtedness, financing or refinancing properties, funding operating expenses or for other purposes. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to certain limitations. Failure by Choice Properties to access required capital could have a material adverse effect on the Company's ability to pay its financial or other obligations. An inability to access capital could also impact Choice Properties' ability to make distributions which could have an adverse material effect on the trading price of Units.

Credit Risk The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company. Exposure to credit risk relates to derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, franchise loans receivable, accounts receivable from franchisees and other receivables from vendors, associated stores and independent accounts and pension assets held in the Company's defined benefit plans.

The risk related to derivative instruments, cash and cash equivalents, short term investments or security deposits is reduced by policies and guidelines that require that the Company enter into transactions only with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and place minimum and maximum limits for exposures to specific counterparties and instruments.

Choice Properties mitigates the risk of credit loss relating to rent receivables by evaluating the creditworthiness of new tenants, obtaining security deposits wherever permitted by legislation, ensuring its tenant mix is diversified and by limiting its exposure to any one tenant except Loblaw. Choice Properties establishes an allowance for doubtful accounts that represents the estimated losses with respect to rents receivable. The allowance is determined on a tenant-by-tenant basis based on the specific factors related to the tenant.

PC Bank manages its credit card receivable risk by employing stringent credit scoring techniques and actively monitoring the credit card portfolio, and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers.

Franchise loans receivable, accounts receivable from franchisees and other receivables from vendors, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

Interest Rate Risk The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and financial instruments, net of cash and cash equivalents, short term investments and security deposits. The Company manages interest rate risk by monitoring its respective mix of fixed and floating rate debt net of cash and cash equivalents, short term investments and security deposits, and by taking action as necessary to maintain an appropriate balance considering current market conditions.

Foreign Currency Exchange Rate Risk The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated based purchases in trade payables and other liabilities. An appreciating Canadian dollar relative to the USD will positively impact year-over-year changes in reported operating income and net earnings, while a depreciating Canadian dollar relative to the USD will have the opposite impact.

Commodity Price Risk The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect link of commodities to consumer products and prices. To manage a portion of this exposure, the Company uses purchase commitments for a portion of its needs for certain consumer products that are commodities based. The Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to energy. Despite these mitigation strategies, rising commodity prices could negatively affect the Company's financial performance.

Choice Properties Unit Price The Company is exposed to market price risk as a result of Units that are held by unitholders other than the Company. These Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holder. The liability is recorded at fair value at each reporting period based on the market price of Units. The change in the fair value of the liability negatively impacts net earnings when the Unit price increases and positively impacts net earnings when the Unit price declines.

15. Related Party Transactions

The Company's parent corporation is Weston, which owns, directly and indirectly, 177,299,889 of the Company's common shares, representing approximately 63% of the Company's outstanding common shares. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies which he controls, including Wittington who owns a total of 80,724,599 of Weston's common shares, representing approximately 63% of Weston's outstanding common shares. Mr. Weston also beneficially owns 3,753,789 of the Company's common shares, representing approximately 1% (December 29, 2012 – 1%) of the Company's outstanding common shares. The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Transactions with Related Parties

	Transaction Value	
(millions of Canadian dollars)	2013	2012
Cost of Merchandise Inventory Sold		
Inventory purchases from a subsidiary of Weston	$ 601	$ 627
Inventory purchases from a related party[(i)]	22	18
Operating Income		
Cost sharing agreements with Parent[(ii)]	$ 9	$ 12
Net administrative services provided by Parent[(iii)]	13	17
Choice Properties distributions to Parent[(iv)]	6	—
Lease of office space from a subsidiary of Wittington	3	3

(i) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company. Total balance outstanding owing to Associated British Foods plc as at December 28, 2013 was $4 million (December 29, 2012 – $2 million).

(ii) Weston and the Company have each entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and IT related matters on behalf of itself and the related party. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for the Company's proportionate share of the total costs incurred.

(iii) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information system, risk management, treasury and legal. Payments are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Weston together, each party pays the appropriate proportion of the costs. Fees paid under this agreement are reviewed each year by the Audit Committee.

(iv) Concurrent with the Choice Properties IPO, Weston purchased 20,000,000 Units from Choice Properties at $10.00 per Unit for a total subscription price of $200 million. Choice Properties issued an additional 107,810 Units to Weston under a distribution reinvestment plan ("DRIP") at a price of $10.05 per Unit. In 2013, Choice Properties recorded $6 million in distributions to Weston relating to Units, which have been classified as interest expense in the Consolidated Statement of Earnings.

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The net balances due to parent are comprised as follows:

(millions of Canadian dollars)	As at December 28, 2013	As At December 29, 2012
Balance Sheet:		
Trade payables and other liabilities	$ 27	$ 25

Post-Employment Benefit Plans The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are disclosed in Section 8.1 Cash Flows.

Income Tax Matters From time to time, the Company, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations. In 2013, these elections and accompanying agreements did not have a material impact on the Company.

Key Management Personnel The Company's key management personnel are comprised of the Board and certain members of the executive team of the Company, as well as both the Board and certain members of the executive team of Weston and Wittington to the extent that they have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company.

Compensation of Key Management Personnel Annual compensation of key management personnel that is directly attributable to the Company was as follows:

(millions of Canadian dollars)	2013	2012
Salaries, director fees and other short term employee benefits	$ 8	$ 7
Share-based compensation	6	4
Total compensation	$ 14	$ 11

16. Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires management to make estimates and judgments in applying the Company's accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Within the context of this MD&A, a judgment is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements.

16.1 Inventories

Key Sources of Estimation Inventories are carried at the lower of cost and net realizable value, which requires the Company to utilize estimates related to fluctuations in future retail prices, seasonality and costs necessary to sell the inventory.

16.2 Impairment of Non-Financial Assets (Goodwill, Intangible Assets, Fixed Assets and Investment Properties)

Judgments Made in Relation to Accounting Policies Applied Management is required to use judgment in determining the grouping of assets to identify their cash generating units ("CGUs") for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs, for the level at which goodwill and intangible assets are tested for impairment. The Company has determined that each retail location and each investment property is a separate CGU for purposes of fixed asset impairment testing. For the purpose of goodwill and intangible impairment testing, CGUs are grouped at the lowest level at which goodwill and intangibles are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

Key Sources of Estimation In determining the recoverable amount of a CGU or a group of CGUs, various estimates are employed. The Company determines fair value less costs to sell using such estimates as market rental rates for comparable properties, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates and terminal capitalization rates. The Company determines value in use by using estimates including projected future revenues, earnings and capital investment consistent with strategic plans presented to the Board. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

16.3 Franchise Loans Receivable and Certain Other Financial Assets

Judgments Made in Relation to Accounting Policies Applied Management reviews franchise loans receivable, trade receivables and certain other assets relating to their franchise business at each balance sheet date utilizing judgment to determine whether a triggering event has occurred requiring an impairment test to be completed.

Key Sources of Estimation Management determines the initial fair value of its franchise loans and certain other financial assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires management to make estimates of a long term nature regarding discount rates, projected revenues, and margins, as applicable, derived from past experience, actual operating results, budgets and the Company's five year forecast.

16.4 Income and Other Taxes

Judgments Made in Relation to Accounting Policies Applied The calculation of current and deferred income taxes requires management to make certain judgments regarding the tax rules in jurisdictions where the Company performs activities. Application of judgments is required regarding classification of transactions and in assessing probable outcomes of claimed deductions including expectations about future operating results, the timing and reversal of temporary differences and possible audits of income tax and other tax filings by the tax authorities.

16.5 Allowance for Credit Card Receivables

Key Sources of Estimation The allowance for credit card receivables is measured based upon statistical analysis that includes estimates for past and current performance, aging, arrears status, the level of allowance already in place, and management's interpretation of economic conditions and other trends specific to our customer base, including but not limited to bankruptcies. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit receivables.

17. Accounting Standards

17.1 Accounting Standards Implemented in 2013

Fair Value Measurement In 2011, the International Accounting Standards Board ("IASB") issued IFRS 13, "Fair Value Measurement" ("IFRS 13"), which establishes a single framework for the fair value measurement and disclosure of financial and non-financial assets and liabilities. The new standard unifies the definition of fair value and also introduces new concepts including 'highest and best use' and 'principal markets' for non-financial assets and liabilities. There are additional disclosure requirements, including increased fair value disclosure for financial instruments for interim and annual financial statements. The Company implemented this standard prospectively in the first quarter of 2013. There were no significant measurement impacts on the Company's consolidated financial statements as a result of the adoption of IFRS 13. The Company has included the additional disclosures required by the standard in the notes to the consolidated financial statements for the year ended 2013.

Employee Benefits In 2011, the IASB revised International Accounting Standard ("IAS") 19, "Employee Benefits" ("IAS 19"). The most significant amendments for the Company and its significant accounting policies are the requirement to immediately recognize all unvested past service costs and the replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying a prescribed discount rate to the net defined benefit obligation (asset). Under the amendment, the Company continues to recognize actuarial gains and losses on plan assets and obligations through other comprehensive income, but has chosen to reclassify these amounts from accumulated other comprehensive income and record these actuarial gains and losses in retained earnings, consistent with its previous presentation. The Company implemented this standard retrospectively in the first quarter of 2013. The impact arising from the adoption of the amendments to IAS 19 is summarized as follows:

Consolidated Statements of Earnings and Comprehensive Income Increase (Decrease) (millions of Canadian dollars except where otherwise indicated)	December 28, 2013 (52 weeks)	December 29, 2012 (52 weeks)
Selling, General and Administrative Expenses	$ (20)	$ 1
Operating Income	$ 20	$ (1)
Net interest expense and other financing charges	27	20
Earnings Before Income Taxes	$ (7)	$ (21)
Income taxes	(2)	(5)
Net Earnings	$ (5)	$ (16)
Other comprehensive income, net of taxes	20	15
Total Comprehensive Income	$ 15	$ (1)
Net Earnings per Common Share ($)		
Basic	$ (0.02)	$ (0.06)
Diluted	$ (0.02)	$ (0.05)

Consolidated Balance Sheets Increase (Decrease) (millions of Canadian dollars)	As at December 28, 2013	As at December 29, 2012	As at January 1, 2012
Total liabilities	$ (17)	$ (2)	$ (3)
Shareholders' equity	17	2	3

The amendments also require enhanced annual disclosures for defined benefit plans, including additional information on the characteristics and risks of those plans.

Other Standards In addition to the above standards, the Company implemented the following standards and amendments effective January 1, 2013: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 28, "Investments in Associates" and IAS 1, "Presentation of Financial Statements". There was no significant impact on the Company's consolidated financial statements as a result of the implementation of these standards.

In 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which clarify the disclosure requirements for recoverable amounts of CGUs. These amendments are required to be applied for periods beginning on or after January 1, 2014. The Company has elected to early adopt these amendments during 2013. There was no significant impact on the Company's consolidated financial statements as a result of these amendments.

17.2 Future Accounting Standards

Financial Instruments In 2011, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation". These amendments are required to be applied for periods beginning on or after January 1, 2014. The Company does not expect any significant impacts on its consolidated financial statements as a result of these amendments.

In 2013, the IASB issued amendments to, IFRS 9, "Financial Instruments" ("IFRS 9"), issued in 2010, 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 current issuance of IFRS 9 includes the first and third phases of the project, which provide guidance on the classification and measurement of financial assets and financial liabilities and hedge accounting. The mandatory effective date of the standard has not been determined due to the incomplete status of the second phase of the project, impairment. The effective date of the entire standard will be determined closer to the completion of the remaining phase. The Company continues to assess the impact of the new standard on its consolidated financial statements.

Levies In 2013, the International Financial Reporting Interpretations Committee issued IFRIC 21, "Levies" ("IFRIC 21"). IFRIC 21 addresses accounting for a liability to pay a levy within the scope of IAS 37, "Provisions, contingent liabilities and contingent assets". A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, "Income Taxes" and fines or other penalties imposed for breaches of the legislation. This interpretation becomes effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The Company is currently assessing the impact of the new interpretation on its consolidated financial statements.

18. Outlook[1]

In a highly competitive market, Loblaw's strategy of focusing on its customer proposition and generating targeted efficiencies resulted in positive revenue and adjusted operating income growth in fiscal 2013.

The Company will continue to focus on investing in its customer proposition in 2014 in its retail business - value, assortment and service - while focusing on balancing these investments with incremental efficiencies. In the first half of 2014, the environment is expected to remain extremely competitive driven by continued greater than historical square footage expansion, which is expected to moderate in the second half of the year.

(1) See Forward-Looking Statements on page 2.

19. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: adjusted operating income, adjusted operating margin, adjusted EBITDA, adjusted EBITDA margin, adjusted net earnings, adjusted basic net earnings per common share, interest and interest coverage, free cash flow, net assets, return on average net assets, adjusted debt and adjusted debt to adjusted EBITDA and with respect to Choice Properties, net operating income, funds from operations, adjusted funds from operations, adjusted funds from operations per unit diluted and adjusted funds from operations payout ratio. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

Management uses these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing consolidated and segment underlying operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

These measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with GAAP.

Adjusted Operating Income, Adjusted Operating Margin, Adjusted EBITDA and Adjusted EBITDA Margin The following table reconciles adjusted operating income and adjusted earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("adjusted EBITDA") to operating income, which is reconciled to GAAP net earnings measures reported in the consolidated statements of earnings for the 12 and 52 week periods ended December 28, 2013 and December 29, 2012. The Company believes that adjusted operating income is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of the business. The Company believes that adjusted EBITDA is also useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

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

					2013 (12 weeks)					2012[1] (12 weeks)
(millions of Canadian dollars) (unaudited)	Retail	Financial Services	Choice Properties[2]	Consolidation and Eliminations	Consolidated	Retail	Financial Services	Choice Properties	Consolidation and Eliminations	Consolidated
Net earnings					$ 127					$ 139
Add impact of the following:										
Net interest expense and other financing charges					141					84
Income taxes					46					38
Operating income	$ 270	$ 43	$ 186	$ (185)	$ 314	$ 227	$ 34	$ —	$ —	$ 261
Add (deduct) impact of the following:										
Equity-based compensation, net of equity forwards	8	—	—	—	8	2	—	—	—	2
Fixed asset and other related impairments, net of recoveries	(42)	—	—	—	(42)	12	—	—	—	12
Restructuring costs	32	—	—	—	32	61	—	—	—	61
Choice Properties general and administrative costs	(2)	—	5	—	3	—	—	—	—	—
Shoppers Drug Mart related costs	7	—	—	—	7	—	—	—	—	—
Gain on disposal of assets	—	—	—	—	—	(11)	—	—	—	(11)
Adjusted operating income	$ 273	$ 43	$ 191	$ (185)	$ 322	$ 291	$ 34	$ —	$ —	$ 325
Depreciation and amortization	191	2	—	3	196	185	2	—	—	187
Adjusted EBITDA	$ 464	$ 45	$ 191	$ (182)	$ 518	$ 476	$ 36	$ —	$ —	$ 512

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013" section on page 37.

(2) Results are for the period ended December 31, 2013, consistent with Choice Properties' fiscal calendar. Adjustments to December 28, 2013 are included in Consolidation and Eliminations.

(millions of Canadian dollars)	2013 (52 weeks) Retail	Financial Services	Choice Properties[2]	Consolidation and Eliminations	Consolidated	2012[1] (52. weeks) Retail	Financial Services	Choice Properties	Consolidation and Eliminations	Consolidated
Net earnings					$ 630					$ 634
Add impact of the following:										
Net interest expense and other financing charges					468					351
Income taxes					228					210
Operating income	$1,185	$ 142	$ 370	$ (371)	$ 1,326	$1,100	$ 95	$ —	$ —	$ 1,195
Add (deduct) impact of the following:										
Equity-based compensation, net of equity forwards	32	—	—	—	32	28	—	—	—	28
Fixed asset and other related impairments, net of recoveries	(32)	—	—	—	(32)	19	—	—	—	19
Restructuring costs	35	—	—	—	35	61	—	—	—	61
Choice Properties general and administrative costs	(3)	—	9	—	6	—	—	—	—	—
Choice Properties start-up costs	—	—	3	—	3	—	—	—	—	—
Shoppers Drug Mart related costs	6	—	—	—	6	—	—	—	—	—
Gain on disposal of assets	—	—	—	—	—	(11)	—	—	—	(11)
Defined benefit plan amendments	(51)	—	—	—	(51)	—	—	—	—	—
Adjusted operating income	$1,172	$ 142	$ 382	$ (371)	$ 1,325	$1,197	$ 95	$ —	$ —	$ 1,292
Depreciation and amortization	809	9	—	6	824	767	10	—	—	777
Adjusted EBITDA	$1,981	$ 151	$ 382	$ (365)	$ 2,149	$1,964	$ 105	$ —	$ —	$ 2,069

Equity-based compensation, net of equity forwards Until the first quarter of 2013, Glenhuron held equity forwards to partially hedge the impact of increases in the value of Loblaw common shares on equity-based compensation costs. The amount of net equity-based compensation costs recorded in operating income has historically been mainly dependent upon changes in the value of Loblaw common shares and the number and vesting of RSUs and PSUs relative to the number of common shares underlying the equity forwards. During 2013, Glenhuron settled its remaining equity forward contracts and the RSU and PSU plans were amended to require settlement in common shares rather than in cash. As a result of the settlements and plan amendments, the components of equity-based compensation and their exposure to changes in the value of Loblaw common shares have changed. In order to assess operating performance on a consistent basis, management excludes the impact of equity-based compensation from operating income. In the fourth quarter of 2013 and year-to-date, a charge of $8 million (2012 – $2 million) and $32 million (2012 – $28 million), respectively, were recorded related to equity-based compensation net of equity forwards.

Fixed asset and other related impairments, net of recoveries At each balance sheet date, the Company assesses and, when required, records impairments and recoveries of previous impairments related to the carrying value of its fixed assets, investment properties and intangible assets. In the fourth quarter of 2013, the Company recorded net recoveries of $42 million (2012 – charge of $12 million) and year-to-date recorded net recoveries of $32 million (2012 – charge of $19 million).

Restructuring costs In the fourth quarter of 2013 and year-to-date, $32 million (2012 – $61 million) and $35 million (2012 – $61 million), respectively, of restructuring costs were recorded in operating income.

Choice Properties general and administrative costs In the fourth quarter of 2013, the Company recorded $3 million and year-to-date $6 million of incremental general and administrative costs relating to Choice Properties in operating income.

Choice Properties start-up costs In connection with the IPO of Choice Properties, the Company incurred certain costs to facilitate the start-up of the new entity. Year-to-date the Company recorded $3 million of Choice Properties start-up costs in operating income.

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013" section on page 37.

(2) Results are for the period ended December 31, 2013, consistent with Choice Properties' fiscal calendar. Adjustments to December 28, 2013 are included in Consolidation and Eliminations.

Shoppers Drug Mart related costs In connection with the agreement to acquire all of the outstanding common shares of Shoppers Drug Mart, in the fourth quarter of 2013 the Company incurred $7 million and year-to-date $16 million of acquisition costs, which were recorded in operating income. In addition, in connection with the issuance of $1.6 billion of unsecured notes in 2013, the Company hedged its exposure to interest rates in the period prior to the issuance. As the hedge did not qualify for hedge accounting, the resulting gain on settlement of $10 million year-to-date was recorded in operating income.

Defined benefit plan amendments During 2013, the Company announced amendments to certain of its defined benefit plans impacting certain employees retiring after January 1, 2015. As a result, year-to-date the Company recorded a gain of $51 million in 2013.

Gain on disposal of assets During the fourth quarter of 2012, the Company recognized a gain of $11 million related to the sale of a property. The Company adjusts for gains or losses on disposals of assets only when they are individually material.

Adjusted Net Earnings and Adjusted Basic Net Earnings Per Common Share The Company believes adjusted net earnings and adjusted basic net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

The following table reconciles adjusted net earnings and adjusted basic net earnings per common share to GAAP net earnings and basic net earnings per common share reported for the 12 and 52 week periods ended December 28, 2013 and December 29, 2012:

(millions of Canadian dollars/Canadian dollars) (unaudited)	2013 (12 weeks)		2012[1] (12 weeks)		2013 (52 weeks)		2012[1] (52 weeks)	
Net earnings/basic net earnings per common share	$ 127	$ 0.45	$ 139	$ 0.49	$ 630	$ 2.24	$ 634	$ 2.25
Add (deduct) impact of the following:								
Equity-based compensation, net of equity forwards	7	0.02	—	—	28	0.10	25	0.09
Fixed asset and other related impairments, net of recoveries	(29)	(0.10)	9	0.04	(22)	(0.08)	14	0.05
Restructuring costs	24	0.09	45	0.16	26	0.09	45	0.16
Choice Properties general and administrative costs	2	0.01	—	—	4	0.01	—	—
Choice Properties start-up costs and IPO transaction costs	1	—	—	—	35	0.12	—	—
Shoppers Drug Mart related costs	17	0.06	—	—	27	0.10	—	—
Gain on disposal of assets	—	—	(8)	(0.03)	—	—	(8)	(0.03)
Defined benefit plan amendments	—	—	—	—	(37)	(0.13)	—	—
Early debt settlement costs	—	—	—	—	13	0.05	—	—
Fair value adjustment of Trust Unit Liability	34	0.12	—	—	27	0.10	—	—
Adjusted net earnings/adjusted basic net earnings per common share	$ 183	$ 0.65	$ 185	$ 0.66	$ 731	$ 2.60	$ 710	$ 2.52

Choice Properties IPO transaction costs In addition to the start-up costs recorded in operating income noted above, in 2013 year-to-date, transaction costs of $44 million on a pre-tax basis were incurred related directly to the Choice Properties IPO. These transaction costs were recorded in net interest and other financing charges.

Shoppers Drug Mart related costs In addition to the related costs recorded in operating income noted above, during the fourth quarter of 2013, $14 million and year-to-date $25 million of additional net interest expense on a pre-tax basis were incurred in connection with the committed financing related to the acquisition. These financing charges were recorded in net interest expense and other financing charges.

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013" section on page 37.

Early debt settlement costs During 2013, the Company settled its remaining USD $150 million USPP note in advance of its May 29, 2015 maturity date and related cross currency swap. Year-to-date the Company incurred early-settlement costs related to the prepayment of $18 million on a pre-tax basis, which were recorded in net interest expense and other financing charges.

Fair value adjustment of Trust Unit Liability The Company is exposed to market price fluctuations as a result of the Choice Properties Units held by unitholders other than the Company. These Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holder, subject to certain restrictions. This liability is recorded at fair value at each reporting period based on the market price of Units. In the fourth quarter of 2013 and year-to-date, the Company recorded a loss of $34 million and $27 million, respectively, related to the fair value adjustment of the Trust Unit Liability.

Interest and Interest Coverage The following table reconciles interest expense used in the calculations of the interest coverage ratio to GAAP measures for the 12 and 52 week periods ended December 28, 2013 and December 29, 2012. The Company believes the interest coverage ratio is useful in assessing the Company's ability to cover its net interest expense with its operating income.

Interest expense is calculated as net interest expense and other financing charges plus interest capitalized on fixed assets. Interest coverage is calculated as operating income divided by interest expense.

(millions of Canadian dollars) (unaudited)	2013 (12 weeks)	2012[(1)] (12 weeks)	2013 (52 weeks)	2012[(1)] (52 weeks)
Net interest expense and other financing charges	$ 141	$ 84	$ 468	$ 351
Add: Interest capitalized to fixed assets	1	—	2	1
Interest expense	$ 142	$ 84	$ 470	$ 352

Free Cash Flow The following table reconciles free cash flow used in assessing the Company's financial condition to GAAP measures for the 12 and 52 week periods ended December 28, 2013 and December 29, 2012. In the first quarter of 2013, the Company refined its definition of free cash flow as cash flows from operating activities less the change in credit card receivables, fixed asset purchases and interest paid. The Company believes that this definition of free cash flow is the appropriate measure in assessing the Company's cash available for additional funding and investing activities.

(millions of Canadian dollars) (unaudited)	2013 (12 weeks)	2012[(1)] (12 weeks)	2013 (52 weeks)	2012[(1)] (52 weeks)
Cash flows from operating activities	$ 738	$ 605	$ 1,491	$ 1,637
Less: Change in credit card receivables	(108)	(232)	(233)	(204)
Fixed asset purchases	304	361	865	1,017
Interest paid	98	103	370	356
Free cash flow	$ 444	$ 373	$ 489	$ 468

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013" section on page 37.

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

Net assets is calculated as total assets less cash and cash equivalents, short term investments, security deposits and trade payables and other liabilities. Return on average net assets is calculated as cumulative operating income for the latest four quarters divided by average net assets.

(millions of Canadian dollars)	As at December 28, 2013	As at December 29, 2012
Total assets	$ 20,759	$ 17,961
Less: Cash and cash equivalents	2,260	1,079
Short term investments	290	716
Security deposits	1,701	252
Trade payables and other liabilities	3,797	3,720
Net assets	$ 12,711	$ 12,194

Adjusted Debt The following table reconciles adjusted debt used in the adjusted debt to adjusted EBITDA ratio to GAAP measures reported as at the periods ended as indicated. The Company believes that adjusted debt is relevant in assessing the amount of financial leverage employed.

The Company calculates debt as the sum of short term debt, long term debt, Trust Unit Liability, certain other liabilities and the fair value of related financial derivatives. The Company calculates adjusted debt as debt less Independent Securitization Trusts in short term and long term debt, independent funding trusts, Trust Unit Liability and PC Bank's GICs. Adjusted debt to adjusted EBITDA is calculated as adjusted debt divided by cumulative adjusted EBITDA for the latest four quarters.

(millions of Canadian dollars)	As at December 28, 2013	As at December 29, 2012
Short term debt	$ 605	$ 905
Long term debt due within one year	1,008	672
Long term debt	6,672	4,997
Trust Unit Liability	688	—
Certain other liabilities	39	39
Fair value of financial derivatives related to the above	—	14
Total debt	$ 9,012	$ 6,627
Less:		
Independent Securitization Trusts in short term debt	605	905
Independent Securitization Trusts in long term debt	750	600
Independent Funding Trusts	475	459
Trust Unit Liability	688	—
Guaranteed Investment Certificates	430	303
Adjusted debt	$ 6,064	$ 4,360

The Second Preferred Shares, Series A classified as capital securities are excluded from the calculations of total debt and adjusted debt.

Choice Properties Net Operating Income The following table reconciles Choice Properties net operating income to GAAP measures for the 12 and 52 week periods ended December 28, 2013 and December 29, 2012. The Company believes net operating income is useful in measuring Choice Properties operating performance and the performance of the real estate properties

(millions of Canadian dollars) (unaudited)	2013[1] (12 weeks)	2012 (12 weeks)	2013[1] (52 weeks)	2012 (52 weeks)
Rental revenue	$ 165	$ —	$ 319	$ —
Reverse - Straight-line rent	(9)	—	(17)	—
	$ 156	$ —	$ 302	$ —
Property Operating Costs	(42)	—	(80)	—
Net Operating Income	$ 114	$ —	$ 222	$ —

Choice Properties Funds from Operations, Adjusted Funds from Operations, Adjusted Funds from Operations per Unit Diluted and Adjusted Funds from Operations Payout Ratio The following table reconciles Choice Properties funds from operations and adjusted funds from operations to GAAP measures for the 12 and 52 week periods ended December 28, 2013 and December 29, 2012. The Company believes funds from operations is useful in measuring Choice Properties operating performance and the performance of the real estate properties and adjusted funds from operations is useful in measuring economic performance and is indicative of Choice Properties' ability to pay distributions.

(millions of Canadian dollars) (unaudited)	2013[1] (12 weeks)	2012 (12 weeks)	2013[1] (52 weeks)	2012 (52 weeks)
Net income	$ (6)	$ —	$ 67	$ —
Fair value adjustments on Class B Limited Partnership units	112	—	147	—
Fair value adjustments on investment properties	(69)	—	(144)	—
Fair value adjustments on unit-based compensation	—	—	—	—
Distributions on Class B Limited Partnership units	46	—	89	—
Amortization of tenant improvement allowances	—	—	—	—
Funds from Operations	$ 83	$ —	$ 159	$ —
Business start-up costs	—	—	3	—
Straight-line rental revenue	(8)	—	(16)	—
Amortization of finance charges	1	—	1	—
Unit-based compensation expense	—	—	—	—
Sustaining capital expenditures[2]	(10)	—	(15)	—
Leasing capital expenditures	(1)	—	(1)	—
Adjusted Funds from Operations	$ 65	$ —	$ 131	$ —

(1) Results are for the period ended December 31, 2013, consistent with Choice Properties' fiscal calendar.
(2) Anticipated property capital expenditure is approximately $15 million for a half-year period, however only $9 million was spent as at December 31, 2013.

Adjusted funds from operations per unit diluted is calculated as adjusted funds from operations divided by Choice Properties' diluted weighted average units outstanding, which were 368.1 million in the fourth quarter of 2013 and 363.8 million year-to-date.

Adjusted funds from operations payout ratio is calculated as Choice Properties' distribution per unit, which was $0.162501 in the fourth quarter of 2013 and $0.318917 year-to-date, divided by adjusted funds from operations per unit diluted.

20. Additional Information

Additional information about the Company has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at sedar.com and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, PC Bank.

February 19, 2014
Toronto, Canada