Loblaw

COMPANIES LIMITED

ANNUAL INFORMATION FORM

(for the year ended January 3, 2015)

February 26, 2015

LOBLAW COMPANIES LIMITED

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DATE OF INFORMATION

All information in this Annual Information Form ("AIF") is current as of January 3, 2015, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

This AIF for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") 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 AIF include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, targeted synergies and other anticipated benefits associated with the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), future liquidity and debt reduction targets, planned capital expenditures, amount of pension plan contributions, and status and impact of information technology ("IT") systems implementation. 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 2015 is based on certain assumptions, including assumptions about anticipated cost savings, operating efficiencies and continued growth from current initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

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

- failure to realize the anticipated strategic benefits or operational, competitive and cost synergies associated with the acquisition of Shoppers Drug Mart;
- failure to reduce indebtedness associated with the acquisition of Shoppers Drug Mart to bring leverage ratios to a level consistent with investment grade ratings;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies associated with the Company's major initiatives, including those from restructuring;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business;
- changes in the Company's estimate of inventory cost as a result of its IT system upgrade;
- 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;
- 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;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- reliance on the performance and retention of third-party service providers, including those associated with the Company's supply chain and apparel business;
- issues with vendors in both advanced and developing markets;

- the 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; and
- the inability of the Company to collect on and fund its credit card receivables.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. 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 AIF. 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.

1. CORPORATE STRUCTURE

1.1 Incorporation

Loblaw Companies Limited was incorporated on January 18, 1956, although portions of its business originated before 1900. It was continued under the *Canada Business Corporations Act* by a certificate of continuance dated May 7, 1980. The registered office of the Company is located at 22 St. Clair Avenue East, Toronto, Canada, M4T 2S7. The National Head Office and store support centre of the Company is located at 1 President's Choice Circle, Brampton, Canada, L6Y 5S5.

1.2 Intercorporate Relationships

Loblaw Companies Limited is a holding company, which carries on its business through its subsidiaries. A list of the subsidiaries of the Company that carry on its principal businesses is set out below. The Company owns, either directly or indirectly, 100% of the voting securities of these subsidiaries, other than Choice Properties Real Estate Investment Trust ("Choice Properties") and Choice Properties Limited Partnership, in which the Company holds an 82.9% effective interest.

Subsidiary	Jurisdiction of Incorporation/Formation
Loblaws Inc.	Ontario
Shoppers Drug Mart Inc.	Canada
Choice Properties Limited Partnership	Ontario
Choice Properties Real Estate Investment Trust	Ontario
President's Choice Bank	Canada

2. DESCRIPTION OF THE BUSINESS

2.1 Overview

The Company has three reportable operating segments: Retail, Financial Services and Choice Properties. The Retail segment consists primarily of a discount supermarket business, a full-service supermarket business, an emerging and wholesale business and Shoppers Drug Mart, Canada's leading pharmacy business. The Company's Financial Services segment provides retail banking, credit card services, auto, home, travel and pet insurance and wireless mobile products and services. Choice Properties owns, develops and manages income-producing commercial properties.

2.2 Retail Segment

The Company is one of Canada's largest grocery, pharmacy and health and beauty retailers. It is also a leading provider of apparel and general merchandise. The Company offers one of Canada's strongest control label programs, including the *President's Choice*[1], *Life*

[1] When used in this AIF, the trademarks of the Company are presented in italics.

Brand, *no name* and *Joe Fresh* brands. In addition, through the *PC Plus* and *Shoppers Optimum / Pharmaprix Optimum* loyalty programs, the Company rewards Canadian consumers for shopping at its stores.

The Retail segment includes the following divisions, each operating as a distinct, but complementary business.

I. Discount

The Company's Discount banners, including *Extra Foods*, *Maxi*, *Maxi & Cie*, *No Frills and Box*, are focused on delivering a fresh-led food shop with limited assortment and service at reduced prices. The *Real Canadian Superstore* banner offers a food-led one-stop-shop with a broad assortment of food, health and beauty and apparel and general merchandise products, all at competitive prices. Many of the Company's Discount grocery stores also include in-store pharmacies. The Company's Discount banners operate across Canada and include franchised and corporate stores.

II. Market

The Company's full-service or Market banners support the Company's vision – *Live Life Well* – by delivering a leading fresh offer, breadth of assortment, innovative and quality products, and customer-centric service with strong ties to the communities they trade in. The Market division consists of two primary formats: the *Neighbour* stores that provide a trusted and familiar full-service shopping experience, and the growing network of renovated and new *Inspire* stores that specialize in food discovery. Most of the Company's Market grocery stores also include in-store pharmacies. The Company's Market banners operate across Canada and include franchised and corporate stores.

III. Emerging

The Company's Emerging business serves the diverse Canadian population both through a comprehensive in-line assortment of multicultural products carried throughout the Company's network of grocery stores and through its stand-alone stores, including *T&T Supermarket* ("T&T"), *Fortinos* and *ARZ Fine Foods*. The Company's self-serve wholesale banners, which form part of the Company's Emerging division, provide customers with everything they need to be successful in food service and convenience markets. Some of the Company's Emerging and wholesale stores have in-store pharmacies. The Emerging business also includes over 200 gas bars across Canada and over 30 corporate-owned liquor stores in Alberta. The Company's Emerging and wholesale banners operate across Canada and include corporate, franchise and independent stores.

IV. Shoppers Drug Mart

Shoppers Drug Mart operates over 1,300 stand-alone drug stores under the banners *Shoppers Drug Mart* and *Pharmaprix* in Quebec. The majority of the Shoppers Drug Mart stores are owned and operated by Associates. An Associate is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using the Company's trademarks. The Associate-owner model combines the principles of a franchise arrangement, through the licensing of drug stores to individual Associates, with the benefits of a corporate infrastructure. Under the licensing arrangement with Associates, Shoppers Drug Mart provides the capital and financial support to enable Associates to operate *Shoppers Drug Mart, Pharmaprix, Shoppers Simply Pharmacy and Pharmaprix Simplement Santé* stores without any initial investment, except in the Province of Quebec where an initial investment is required.

In addition to full service retail drug stores, Shoppers Drug Mart's banners include other retail formats such as: *Shoppers Simply Pharmacy* (*Pharmaprix Simplement Santé in Quebec),* which are retail pharmacies located in medical buildings or clinics providing pharmacy products and professional services and advice; *Shoppers Home Health Care*, which sells and services assisted-living devices, medical equipment, home-care products and mobility equipment to both institutional and retail customers; and *Murale*, a luxury beauty store.

In addition to its retail store network, the Company owns Shoppers Drug Mart Specialty Health Network Inc., a provider of specialty drug distribution, pharmacy and comprehensive patient support services and MediSystem Technologies Inc., a provider of pharmaceutical products and services to long-term care facilities.

2.2.1. Geographic and Banner Summary

As at January 3, 2015, the Company, through its subsidiaries, franchisees, and Associates operated stores in the following jurisdictions across Canada[2]:

Jurisdiction	Corporate Stores	Franchise Stores	Associate-Owned Shoppers Drug Mart Stores
Newfoundland and Labrador	12	7	28
Prince Edward Island	4	5	4
Nova Scotia	32	17	36
New Brunswick	21	22	39
Quebec	166	65	177
Ontario	209	307	627
Manitoba	23	3	41
Saskatchewan	23	12	33
Alberta	57	44	146
Northwest Territories	0	2	1
Yukon	1	1	2
British Columbia	60	42	168
USA	7	0	0
Total	615	527	1,302

As at January 3, 2015, the Company, through its subsidiaries, franchisees and Associates operated stores under the following banners[3]:

Banner	Corporate Stores	Franchise Stores	Associate-Owned Shoppers Drug Mart Stores
Market			
Atlantic Save Easy	1	40	0
Loblaw	65	0	0
Provigo	8	65	0
Provigo Le Marche	11	0	0
SuperValu	0	6	0
Shop Easy	0	6	0
NGR - Valumart	0	60	0
NGR - Freshmart	0	0	0
NGR - Your Independent Grocer	1	73	0
Loblaws City Market	0	2	0
Zehrs	42	0	0
Atlantic Superstore	51	0	0
Dominion[4] (in Newfoundland and Labrador)	11	0	0
Discount			
Extra Foods	29	13	0
Maxi	90	0	0
Maxi & Cie	24	0	0
No Frills	0	238	0
Box	1	2	0
The Real Canadian Superstore	113	0	0
Shoppers Drug Mart			

[2] Excluding gas bars, liquor stores, affiliated independent grocery stores and independent accounts.

[3] See note 2.

[4] Trademark used under license.

Home Health Care	62	0	0
Murale	6	0	0
Shoppers	0	0	1,251
Shoppers Simply Pharmacy	0	0	51
Emerging			
ARZ Fine Foods	1	0	0
T&T	23	0	0
Fortinos	0	22	0
Wholesale			
Cash & Carry	16	0	0
Presto	11	0	0
The Real Canadian Wholesale Club	32	0	0
Apparel			
Joe Fresh	10	0	0
Joe Fresh US	7	0	0
Total	615	527	1,302

As at January 3, 2015, the total square footage of the Company's corporate-owned, franchised and Associate-owned Shoppers Drug Mart stores was approximately 36.8 million square feet, 15.5 million square feet and 17.7 square feet, respectively. The Company owned 72% of the real estate on which its corporate stores are located, 46% of the real estate on which franchised grocery stores are located, as well as various properties under development or held for future development. The majority of Shoppers Drug Mart stores are leased. Associate-owned drug stores are leased from a diverse group of lessors, and most are leased on a long-term basis with staggered maturity dates. The majority of the Company's owned real estate portfolio is held by Choice Properties, which is discussed in greater detail in subsections 2.4 and 3.3 of this AIF.

2.2.2 Control Brand Products

The Company has developed a successful line of control brand products and services that are sold or made available throughout its store network and are available on a limited basis to certain independent grocery customers. The Company's experienced product development team works closely with third party vendors in developing and manufacturing products for its control brands. The Company is not dependent on any one source or third party vendor to produce its products.

The Company markets control brand products in the food, health and beauty and general merchandise categories under a number of brand names, including: *President's Choice*, *PC*, *no name*, *PC Organics*, *PC Blue Menu*, *PC black label*, *The Decadent*, *Everyday Essentials, T&T* and *Life Brand.*

The Company also offers *Joe Fresh* branded apparel, accessories and footwear in many of its grocery stores. In addition, the Company offers *Joe Fresh* products in stand-alone *Joe Fresh* stores in Canada and the United States and, through international distributors, the *Joe Fresh* brand has expanded outside of North America. The Company's primary objective is to provide a suite of apparel and general merchandise products that complement its food offering.

2.2.3 Loyalty Programs

The Company rewards customers when they shop at its stores including through its *PC Plus*, *PC* points and the *Shoppers Optimum/Pharmaprix Optimum* loyalty programs.

PC Plus, a fully digital program, rewards customers with weekly personalized offers on the food they purchase most. The *PC Plus* program monitors the products they buy and the offers they redeem to create a customized experience for each individual customer. The more customers interact with the *PC Plus* program, the more personalized their offers become, making it easier for customers to earn more points.

Customers can earn *PC* points when they use *PC* Financial products which can be redeemed for free groceries and other products at participating stores.

The *Shoppers Optimum/Pharmaprix Optimum* loyalty card program is one of the largest retail loyalty card programs in Canada. This program allows members to accumulate points and redeem them for price discounts on future purchases of qualifying products sold in the Shoppers Drug Mart/Pharmaprix stores.

The Company's loyalty programs provide the Company with a significant opportunity to employ customer relationship management tools to improve the Company's understanding of customer needs and design promotions that can be targeted to specific customers and customer segments, thereby driving increased sales and profitability.

2.2.4 Supply Chain

The Company's supply chain is responsible for the flow of goods and information between its vendors and suppliers and the Company's distribution centres and ultimately to its stores. In some cases certain goods flow directly to the Company's stores from the vendors. The Company continuously evaluates its methods of distribution including its relationship with vendors and suppliers, and its technology, facilities and modes of transportation. When appropriate, the Company implements changes to its supply chain infrastructure to ensure a continued, reliable and cost-efficient system.

The Company's supply chain has 27 distribution centres across Canada. Third party logistics service providers are used at several of these distribution centres. The Company uses various modes of transportation, including its own trucking fleet and third party common carriers, railways and ocean carriers. The Company is not dependent on any one of these third party providers.

2.2.5 Retail Competitive Environment

The retail industry in Canada is highly competitive. The Company's competitors include supermarket and retail drug store operators, as well as mass merchandisers, warehouse clubs, on-line retailers, mail order prescription drug distributors, limited assortment stores, discount stores, convenience stores and specialty stores. The Company is also subject to competitive pressures from new entrants into the market place and from the expansion of locations 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.

2.2.6 Seasonality

The Company's retail operations as they relate to food, specifically inventory levels, sales, volume and product mix, are impacted to some degree by certain holiday periods in the year. Certain general merchandise offerings are subject to more seasonal fluctuations.

2.3 Financial Services Segment

President's Choice Bank ("PC Bank") offers to consumers financial services under the *President's Choice Financial* brand, including the *President's Choice Financial* MasterCard, a guaranteed investment certificate ("GIC") product offered exclusively through the broker channel, and personal banking services, which are provided by the direct banking division of a major Canadian chartered bank and through the operation of *President's Choice Financial* services pavilions, located within the Company's participating stores. The Company also offers home, auto, travel, life and pet insurance through its insurance entities and offers gift card and mobile phone services.

The Company also offers *The Mobile Shop* full service kiosks and provides prepaid cellular end caps through its network of grocery stores located across the country.

2.3.1 Financial Services Competitive Environment

The Canadian banking and credit card markets are highly regulated and competitive. The financial services offered by PC Bank compete with comparable products offered by banks and other financial institutions within Canada and are issued on terms and conditions that are competitive with such other products. As competition increases, customer expectations are being redefined, which include an increasing demand for good value, exceptional service and programs that reward them for their loyalty. The value proposition of being able to earn free groceries through the *PC Plus* program is one of the key factors that enables PC Bank to compete with the other players in the market. The Company's inability to meet customer expectations, predict market activity or compete effectively could negatively affect the Company's ability to achieve its objectives.

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

2.3.2 Lending

PC Bank has implemented risk management policies that provide governance and oversight to effectively manage and control existing and potential credit risks involved in extending credit to *President's Choice Financial* MasterCard customers. To minimize the associated credit risk, PC Bank employs advanced credit scoring tools, stringent credit card portfolio monitoring, and technology that produces an effective account management and collection process.

2.4 Choice Properties

Choice Properties' principal business is owning, developing and managing properties with a focus on supermarket-anchored shopping centres, stand-alone supermarkets with or without intensification opportunities and other well-located retail properties that management believes present the best opportunity to generate stable, growing cash flow and capital appreciation. As at January 3, 2015, the Company held an effective ownership in Choice Properties of 82.9% through ownership of 21,500,000 units of Choice Properties ("Units") and 306,032,105 Class B Limited Partnership units ("Class B LP Units") of Choice Properties Limited Partnership, Class B Units are economically equivalent to and exchangeable for Units. Loblaw is the single largest tenant of Choice Properties. As at January 3, 2015, Loblaw represented 88.4% of the total gross leasable area and 91.4% of the annual base rent.

As at January 3, 2015, Choice Properties' portfolio consisted of the following properties across Canada:

Jurisdiction	Retail	Warehouses	Office	Industrial	Land	Grand Total
Newfoundland and Labrador	9	1	0	0	0	10
Prince Edward Island	3	0	0	0	0	3
Nova Scotia	37	0	0	0	0	37
New Brunswick	26	3	0	0	0	29
Québec	104	2	0	0	0	106
Ontario	183	1	1	1	2	188
Manitoba	12	0	0	0	0	12
Saskatchewan	12	1	0	0	0	13
Alberta	49	1	0	0	0	50
British Columbia	20	1	0	0	1	22
North West Territories	1	0	0	0	0	1
Yukon	1	0	0	0	0	1
USA	0	0	0	0	0	0
Grand Total	457	10	1	1	3	472

Additional information on Choice Properties can be found in the Annual Information Form of Choice Properties dated February 24, 2015, which is available at www.sedar.com or www.choicereit.ca.

2.4.1 Choice Properties Competitive Environment

Choice Properties, as one of the largest public real estate entities in Canada, competes with other investors, managers and owners of properties. The key assets that real estate entities compete for are stable tenants and real estate properties for purchase or development. To compete for tenants with desirable covenants, real estate entities typically differentiate themselves by location, age of building, merchandising and operational efficiency. As for real estate assets, competition is based on financial and other resources as well as operating flexibility. Choice Properties is well-positioned to compete in the Canadian real estate sector with Loblaw as its principal tenant, well-located sites and a strong balance sheet. Additional information on the competitive position of Choice Properties is set out in section V of the AIF of Choice Properties dated February 24, 2015, which is available at www.sedar.com or www.choicereit.ca.

2.5 Employees

As at January 3, 2015, the Company, through its subsidiaries, franchisees and Associates employed approximately 195,000 full-time and part-time employees. A majority of the Company's grocery store level and related distribution centre colleagues are unionized.

2.6 Intellectual Property

The Company has established procedures to register or otherwise protect its intellectual property, including the trademarks used in its store-trading or banner names and those associated with its control brand programs. Store-trading or banner names are associated with specific retail concepts and are important to corporate, franchised and Associate-owned drug store operations. The Company's trademarks used in connection with its control brand program are discussed elsewhere in this AIF. Other intellectual property of the Company includes domain names, packaging designs and product formulations and specifications. The intellectual property rights associated with and used in connection with the Company's business are important assets and are defended vigorously. Certain of the Company's trademarks are licensed to third party service providers, primarily in connection with President's Choice Financial services. When used in this AIF, the trademarks of the Company are presented in italics.

2.7 Corporate Social Responsibility and Environmental Policies

The Company is an active, contributing citizen in the communities in which it operates – helping feed Canadians, creating jobs, giving to community programs, supporting local vendors, sourcing products responsibly, and minimizing its impact on the environment. In addition, through the *President's Choice* Children's Charity, the Company is committed to helping children. *President's Choice* Children's Charity aims to make sure children have every opportunity to live to their full potential by providing support to children with special needs and by providing access to nutritious food. In addition, the Shoppers Drug Mart Run for WOMEN raises awareness and funds in support of local women's mental health organizations in communities across Canada.

The Company's approach to Corporate Social Responsibility ("CSR") remains rooted in the five principles of social responsibility – Respect the Environment, Source with Integrity, Make a Positive Difference in Our Community, Reflect Our Nation's Diversity and Be a Great Place to Work.

The Company publishes its CSR objectives and progress in meeting those objectives annually in a public document. The seventh CSR Report was released on May 1, 2014 and can be found at www.loblaw.ca.

3. GENERAL DEVELOPMENT OF THE BUSINESS – THREE YEAR HISTORY

3.1 Retail Segment

Over the past three years, the Company has advanced a number of significant initiatives, including the following.

3.1.1 Acquisition of Shoppers Drug Mart

In 2014, the Company completed the acquisition of Shoppers Drug Mart. As a result of this acquisition, the Company now includes Canada's leading pharmacy business and one of the largest retail loyalty card programs in Canada. In addition, the Company is now able to offer consumers Loblaw's control brand food products in Shoppers Drug Mart stores.

As a result of the acquisition, the Company expects to achieve annualized synergies of $300 million in the third full year following the close of the Shoppers Drug Mart transaction (net of related costs). The Company met its first year synergy target achieving over $100 million in synergies, which were generated primarily from improved cost of goods sold and from purchasing efficiencies in goods not for resale. In 2015, the Company will continue to focus on achieving the anticipated strategic benefits and operational, competitive, and cost synergies associated with this acquisition.

3.1.2 Information Technology Systems Implementation

One of the most significant initiatives that the Company has undertaken over the last three years is the undertaking of a major upgrade of its IT infrastructure. This project represents one of the largest technology infrastructure programs ever implemented by the Company and is fundamental to its long-term growth strategies. It is anticipated that the implementation of the new IT systems will drive ordering and inventory efficiencies by initiating store orders to distribution centres and vendors based on point of sale data and facilitate perpetual inventory in most product categories in its stores. In 2012, the Company went live with its new IT systems at its first corporate store and distribution centre. The Company has since rolled out its new IT systems to substantially all of its corporate grocery stores and distribution centres with no significant impact on customers. In 2015, the Company expects to advance efficiency initiatives, with a focus on continuing to roll out its new IT systems to its remaining stores.

3.1.3 Strengthened Customer Proposition

The Company's customer proposition is the combination of value, experience and product assortment. Over the past three years, heightened industry competition and economic uncertainty have translated into a challenging environment for Canadian retailers. During this time, the Company has worked to strengthen its customer proposition with an emphasis on fresh product quality, presentation and assortment, customer service and competitive value.

In the last three years, the Company has sought to reinforce competitive differentiation, including by: (i) providing innovative control brand products to consumers, including the *President's Choice* gluten free, *PC Free From*, *PC Organics, PC* black label and *PC The Decadent* product lines; (ii) expanding its multicultural control brand product lines, including *Rooster*, *Suraj*, *Sufra*, *T&T* and ARZ*;* (iii) exploring new service opportunities, such as in-store medical clinics and dietitians to meet the evolving needs of Canadian consumers; (iv) optimizing its general merchandise selection to better align with its core food offering; (v) introducing valued-added services, including launching and expanding the *PC Plus* digital loyalty program; and (vi) enhancing its channels of distribution, including launching *Joe Fresh* online in Canada and launching its Click and Collect program, which allows customers to shop online for their groceries and pick up their order at a store and time that is convenient for them, without ever having to leave their car.

The Company has also taken measures to improve the experience at many of its retail grocery stores. Since 2011, the Company has added over 20 *Inspire* stores, based on the Company's flagship *Loblaws* store at Maple Leaf Gardens[5]. These stores aim to provide customers with an elevated shopping experience focused on innovative fresh food concepts, a breadth of assortment and food-focused customer service. In addition, the Company has increased the number of Shoppers Drug Mart stores with a *BeautyBOUTIQUE*, which is a store within a store concept with open-sell displays focused on prestige cosmetics.

In 2015, the Company plans to continue to invest in innovative products, services and channels in order to maintain its competitive position.

3.2 Financial Services Segment

The Company's Financial Services segment is focused on offering cost-effective alternatives to traditional banking, including credit card offerings, as well as insurance, gift card and mobile products. Over the past three years, the objective of the Financial Services business has been to expand its offerings, including mobile phone services, while building loyalty across the Company's businesses, particularly through growth in the Company's *President's Choice Financial* MasterCard portfolio.

3.2.1 *President's Choice Financial* MasterCard

The Company has focused on expanding its *President's Choice Financial* MasterCard portfolio over the past three years. Since 2012, the Company has acquired over 3 million applications for its President's Choice Financial MasterCard and has added over 350,000 new active cardholders in that timeframe. The Company also reinvigorated the *President's Choice Financial* brand with the media campaign: "That's just good banking".

In 2014, the Company offered, UGO, a mobile wallet payment solution. In addition, the Company launched the offering of its pre-paid credit cards and launched a travel website, pctravel.ca, which allows *PC* MasterCard customers to earn even more *PC* points when they use their credit card.

3.2.2 Mobile Phone Services

In 2011, *The Mobile Shop*, a full service mobile kiosk, was launched in 75 of the Company's grocery stores across Canada. *The Mobile Shop* provides customers with the ability to shop a range of mobile rate plans and handsets from a full range of carriers in one convenient location. In 2012 and 2013, the Company introduced over 100 additional *The Mobile Shop* locations, and by the end of 2014, there were more than 175 locations across the Company's grocery store network.

In 2013, the Company launched *PC* mobile post-paid telecom plans, offering Canadians affordable and convenient mobile voice and data options along with the opportunity to collect *PC* points loyalty rewards. In the summer of 2013, new CRTC regulations were put in place that made it mandatory for carriers to allow customers to switch plans and/or carriers, without incurring cancellation fees, after 24 months

[5] Reg'd TM Lic'd Use.

(versus the previous 36 months). This has impacted same store sales as carriers are now charging more for devices in bundled plans due to the shorter contract terms.

In 2015, the Financial Services segment will continue to be focused on initiatives to drive increased customer awareness and grow the *President's Choice Financial* brand.

3.3 Choice Properties Segment

On July 5, 2013, Choice Properties completed its initial public offering ("IPO") of 40,000,000 Units at a price of $10.00 per Unit for aggregate gross proceeds of $400 million. In addition, pursuant to the the exercise of the over-allotment option granted to the underwriters in connection with the IPO, Choice Properties completed the issuance of an additional 6,000,000 Units at a price of $10.00 per Unit for aggregate gross proceeds of $60 million. Inclusive of the over-allotment option, the total gross proceeds of the Choice Properties IPO was $460 million. Concurrently with the closing of the offering, George Weston Limited ("Weston"), the principal shareholder of the Company, indirectly purchased, through two wholly-owned subsidiaries, 20,000,000 Units at a price of $10.00 per Unit for aggregate gross proceeds of $200 million. Choice Properties used the proceeds of the offering to acquire real estate properties from the Company. The initial properties acquired consisted of 425 properties, comprising 415 retail properties, one office complex and nine warehouse properties. The aggregate purchase price for the initial properties was approximately $7 billion.

As at January 3, 2015, Choice Properties' portfolio consisted of 472 properties, comprising of 457 retail properties, ten warehouse properties, one office complex, one industrial property and three parcels of land for development, totaling approximately 38.9 million square feet across Canada, of which the Company has been the predominant vendor. For a further discussion on the distribution of these properties, see section 2.4 of this AIF. In 2015, the Company expects that it will continue to create growth in Choice Properties by selling much of its remaining 7 million square foot property portfolio to Choice Properties over the next 10 years, and investing in a diversified portfolio of non-Loblaw properties.

Additional information on Choice Properties can be found in the Annual Information Form of Choice Properties dated February 24, 2015, which is available at www.sedar.com or www.choicereit.ca.

3.4 Significant Acquisitions

On March 28, 2014, the Company acquired all of the outstanding shares of Shoppers Drug Mart for total consideration of approximately $12.3 billion, comprised of approximately $6.6 billion of cash and the issuance of approximately 119.5 million common shares of the Company.

The cash portion of the acquisition was financed as follows:

- $3.5 billion was obtained through an unsecured term loan facility bearing interest at a rate equal to the Bankers' Acceptance rate plus 1.75% and maturing March 28, 2019. The Company subsequently reached an agreement on July 23, 2014 to re-price the interest rate on the unsecured term loan facility to Banker's Acceptance plus 1.45%
- $1.6 billion of cash proceeds from the issuance of unsecured notes in the third quarter 2013 were released from escrow;
- $500 million was received in consideration of the issuance of approximately 10.5 million common shares to Weston; and
- approximately $1.0 billion of cash on hand.

The Company filed a Business Acquisition Report on June 3, 2014 and a Material Change Report on July 17, 2013 in respect of the acquisition, which are available at www.sedar.com. Further information on the transaction and its expected effect on the Company can also be found in the Information Statement filed by the Company on SEDAR on August 20, 2013.

4. RISKS

4.1 Enterprise Risks and Risk Management

The Company is committed to maintaining 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 Company's Board of Directors 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 may be 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 adversely affect the Company's financial condition or performance.

4.2 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	Employee Retention and Succession Planning
IT Systems Implementations	Ability to Attract and Retain Pharmacists
Pharmacy Industry Regulation	Distribution and Supply Chain
Inventory Management and Valuation	Disaster Recovery and Business Continuity
Change Management	Privacy and Information Security
Information Integrity and Reliability	Franchisee Independence and Relationships
Availability, Access and Security of Information Technology	Associate-owned Drug Store Network and Relationships with Associates
Product Safety and Public Health	Alternative Arrangements for Sourcing Generic Drug Products
Labour Relations	Environmental
Competitive Environment	Trademark and Brand Protection
Economic Environment	Defined Benefit Pension Plan Contributions

Regulatory and Tax	Multi-Employer Pension Plans
Legal Proceedings	Workplace Health and Safety
Vendor Management and Third Party Service Providers	Ethical Business Conduct

Discussion of Operating Risks and Risk Management Strategies

Acquisition of Shoppers Drug Mart Corporation On March 28, 2014, the Company acquired all of the outstanding shares of Shoppers Drug Mart. The realization of the anticipated strategic benefits associated with this acquisition will depend on several factors and will require significant effort on the part of management of the Company. Failure to realize the anticipated strategic benefits or operational, competitive and cost synergies associated with this acquisition could adversely affect the reputation, operations or financial performance of the Company.

IT 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 successfully migrate from legacy systems to the new IT systems or a significant disruption in the Company's current IT 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 or achieve its operational objectives, causing significant disruptions to the business and potential financial losses. Failure to successfully adopt the new IT systems or to implement appropriate processes to support them could result in inefficiencies and duplication in processes, which could in turn adversely affect the reputation, operations and financial performance of the Company. Failure to realize the anticipated strategic benefits including revenue growth, anticipated cost savings or operating efficiencies associated with the new IT systems could adversely affect the reputation, operations or financial performance of the Company.

Pharmacy Industry Regulation With the acquisition of Shoppers Drug Mart, the Company is reliant on prescription drug sales for a more significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, or non-compliance with these laws and regulations, could adversely affect the reputation, operations or financial performance of the Company.

Federal and provincial laws and regulations that establish public drug plans typically regulate prescription drug coverage, patient eligibility, pharmacy reimbursement, drug product eligibility and drug pricing and may also regulate manufacturer allowance funding that is provided to or received by pharmacy or pharmacy suppliers. With respect to pharmacy reimbursement, such laws and regulations typically regulate the allowable drug cost of a prescription drug product, the permitted mark-up on a prescription drug product and the professional or dispensing fees that may be charged on prescription drug sales to patients eligible under the public drug plan. With respect to drug product eligibility, such laws and regulations typically regulate the requirements for listing the manufacturer's products as a benefit or partial benefit under the applicable governmental drug plan, drug pricing and, in the case of generic prescription drug products, the requirements for designating the product as interchangeable with a branded prescription drug product. In addition, other federal, provincial, territorial and local laws and regulations govern the approval, packaging, labeling, sale, marketing, advertising, handling, storage, distribution, dispensing and disposal of prescription drugs.

Sales of prescription drugs, pharmacy reimbursement and drug prices may be affected by changes to the health care industry, including legislative or other changes that impact patient eligibility, drug product eligibility, the allowable cost of a prescription drug product, the mark-up permitted on a prescription drug product, the amount of professional or dispensing fees paid by third-party payers or the provision or receipt of manufacturer allowances by pharmacy and pharmacy suppliers.

The majority of prescription drug sales are reimbursed or paid by third-party payers, such as governments, insurers or employers. These third-party payers have pursued and continue to pursue measures to manage the costs of their drug plans. Each provincial jurisdiction has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing, restricting or prohibiting the provision of manufacturer allowances and placing limitations on private label prescription drug products. Other measures that have been implemented by certain government payers include restricting the number of interchangeable prescription drug products which are eligible for reimbursement under provincial drug plans. Additionally, the Council of the Federation, an institution created by the provincial Premiers in 2003 to collaborate on intergovernmental relations, continues its work regarding cost reduction initiatives for pharmaceutical products and services.

Legislation in certain provincial jurisdictions establish listing requirements that ensure that the selling price for a prescription drug product will not be higher than any selling price established by the manufacturer for the same prescription drug product under other provincial drug insurance programs. In some provinces, elements of the laws and regulations that impact pharmacy reimbursement and manufacturer allowances for sales to the public drug plans are extended by legislation to sales in the private sector. Also, private third-party payers (such as corporate employers and their insurers) are looking or may look to benefit from any measures implemented by government payers to reduce prescription drug costs for public plans by attempting to extend these measures to prescription drug plans they own or manage. Accordingly, changes to pharmacy reimbursement and manufacturer allowances for a public drug plan could also impact pharmacy reimbursement and manufacturer allowances for private sector sales. In addition, private third-party payers could reduce pharmacy reimbursement for prescription drugs provided to their members or could elect to reimburse members only for products included on closed formularies or available from preferred providers.

Ongoing changes impacting pharmacy reimbursement programs, prescription drug pricing and manufacturer allowance funding, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales. These changes may have a material adverse impact on the Company's business, sales and profitability. In addition, the Company could incur significant costs in the course of complying with any changes in the regulatory regime affecting prescription drugs. Non-compliance with any such existing or proposed laws or regulations, particularly those that provide for the licensing and conduct of wholesalers, the licensing and conduct of pharmacists, the regulation and ownership of pharmacies, the advertising of pharmacies and prescription services, the provision of information concerning prescription drug products, the pricing of prescription drugs and restrictions on manufacturer allowance funding, could result in audits, civil or regulatory proceedings, fines, penalties, injunctions, recalls or seizures, any of which could adversely affect the reputation, operations or financial performance of the Company.

Inventory Management The Company is subject to risks associated with managing its inventory. Failure to successfully manage such risks could result in shortages of inventory, or excess or obsolete inventory which cannot be sold profitably or increases in levels of inventory shrink. Any of these outcomes could negatively affect the financial results of the Company. The Company is continuing to convert its grocery stores to a new IT system, and in doing so is gaining increased visibility to integrated costing and sales information at store level. With this increased visibility, the Company will have more precise information to better identify and assess risks relating to inventory, however this will not eliminate such risks.

Change Management Significant initiatives within the Company, including the adoption of the new IT systems, and realizing the anticipated strategic benefits associated with 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 implement 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. In addition, failure to properly implement the initiatives will increase the risk of customer dissatisfaction, which in turn could adversely affect the reputation, operations or 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 necessary to manage the business could preclude the Company from optimizing its overall performance. Any significant loss of data or failure to maintain reliable data could adversely affect the reputation, operations or 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, including distribution of prescription drugs and reimbursement by third-party payors, are critical elements to the operations of the Company. Protection against cyber security incidents and cloud security, and security of all of the Company's IT systems are critical 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 adversely affect the reputation, operations or financial performance of the Company.

Product Safety and Public Health The Company is subject to risks associated with product safety and 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, health and wellness, including pharmaceuticals, 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 adversely affect the reputation, operations or financial performance of the Company.

Labour Relations The Company's workforce is comprised of both unionized and non-unionized colleagues. With respect to those colleagues that are covered by collective agreements, there can be no assurance as to the outcome of any labour negotiations or the timing of their completion. Failure to renegotiate collective agreements could result in strikes, work stoppages or business interruptions, and if any of these events were to occur, they could adversely affect the reputation, operations or financial performance of the Company. If non-unionized colleagues become unionized, the terms of the resulting collective agreements would have implications for the affected operations and those implications could be material.

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 adversely affected.

The Company's competitors include supermarket and retail drug store operators, as well as mass merchandisers, warehouse clubs, on-line retailers, mail order prescription drug distributors, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drug store 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 adversely affect the financial performance of the Company.

Economic Environment Economic factors that impact consumer spending and payment 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 adversely 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 laws affecting all types of 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 could subject the Company to civil or regulatory actions, investigations or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could adversely affect the reputation, operations or 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 2012, the Company received indication from the CRA that the CRA intends to proceed with reassessments of the tax treatment of the Company's wholly owned subsidiary, Glenhuron. The CRA's position is that certain income earned by Glenhuron in Barbados in respect of the 2000 to 2010 taxation years should be treated, and taxed, as income in Canada.

Based on the proposal letter from the CRA, if the CRA and the relevant provincial tax authorities were to prevail in all of these reassessments, which the Company believes would be unlikely, the estimated total tax and interest for the 2000 to 2010 taxation years would be approximately $440 million, which would increase as interest accrues. However, the Company is in discussions with the CRA about the amount of taxes in dispute. The Company believes it is likely that the CRA and the relevant provincial tax authorities will issue reassessments for 2011 to 2013 on the same or similar basis. No amount for any reassessments has been provided for in the Company's financial statements.

Subsequent to the end of 2014, the Company received a letter from the CRA stating that the CRA will be proceeding with the reassessments. The Company expects to receive reassessments from the CRA and the relevant provincial tax authorities sometime in the coming months. The Company strongly disagrees with the CRA's position and intends to vigorously defend its position including appealing the reassessments as and when they are received. The Company will make cash payments or provide other forms of security on a portion of the taxes in dispute. If the Company is successful in defending its position, in whole or in part, some or all of the cash payments or security would be returned to the Company. If the CRA were to ultimately prevail with respect to the proposed reassessment or if the CRA were to successfully pursue other reassessments, the outcome could have a negative material impact on the Company's reputation, results of operations and financial position of the Company in the year(s) of resolution.

As part of the review undertaken by the Competition Bureau of the acquisition by the Company of Shoppers Drug Mart, it expressed concerns about practices that the Company has in place with certain suppliers. In connection with this review, the Bureau issued requests for documents from 12 suppliers of the Company. The Company has and will continue to cooperate with the Competition Bureau in its review of these practices. At this stage of the review, it is not possible to predict when the review will be completed or the outcome of such review. If the Competition Bureau is not satisfied that the Company's practices satisfy the Bureau's objectives of maintaining competitive markets, then the Bureau may pursue remedies that could have a negative material impact on the Company's reputation, results of operations and financial position of the Company.

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 Exception under the *Income Tax Act* and as such is not subject to specified investment flow-through rules. If Choice Properties ceases to qualify for these and other classifications and exceptions, the taxation of Choice Properties and unitholders, including Loblaw, could be materially adversely different in certain respects, which could in turn materially adversely affect the trading price of the Units.

Legal Proceedings As part of its normal course of operations, the Company is involved in and potentially subject to a variety of legal claims and proceedings. With the acquisition of Shoppers Drug Mart, the Company is the subject of a class action brought by two licensed Associate-owners. The claim seeks damages in the amount of $500 million based on alleged breaches of the Associate Agreement with Shoppers Drug Mart. At this stage of the proceeding any potential liability and the quantum of any loss cannot be determined. Since litigation is inherently uncertain, the outcome of this class action, and all other litigation proceedings and claims remains uncertain. However, based on information currently available, these matters, individually and in the aggregate, are not expected to have a material impact on the Company. In the event that management's assessment of materiality of current claims and proceedings proves inaccurate or litigation that is material arises in the future, there may be a material adverse effect on the Company's operations, revenues or financial performance.

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 and safe business practices and inadequate supply of products. 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 adversely 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 adversely affecting the operations or 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. A significant disruption in the services provided by the chartered bank or by third party service providers would adversely 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.

Employee Retention and Succession Planning Effective succession planning for senior management and the ability to attract and retain key personnel are essential to sustaining the growth and success of the Company. In addition, failure to retain senior management 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 adversely affect its reputation, operations or financial performance.

Ability to Attract and Retain Pharmacists The Company is dependent upon the ability to attract, motivate and retain pharmacists for Shoppers Drug Mart Associate-owned drug stores and in-store pharmacies. The inability to attract and retain pharmacists could adversely affect the reputation, operations or financial performance of the Company.

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 adversely affect the operations or 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 adversely affect the reputation, operations or 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. In the course of its business, the Company maintains records containing sensitive information identifying or relating to individuals. The use of digital media by the Company for marketing, promotional, loyalty programs or other business related activities may increase the risk of information security or privacy breaches. The Company's IT systems could be compromised by unauthorized parties attempting to extract business sensitive, confidential or personal information, corrupting information or disrupting business processes or by inadvertent or intentional actions by the Company's employees or vendors. A cybersecurity incident resulting in a security breach or failure to identify a cybersecurity threat, could disrupt business and could result in the loss of business sensitive, confidential or personal information or other assets, as well as litigation, regulatory enforcement, violation of privacy and security laws and regulations and remediation costs. Any failures or vulnerabilities in these systems or non-compliance with laws governing personal information could adversely affect the reputation, operations or 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 of its grocery store operations. 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. 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.

Associate-owned Drug Store Network and Relationships with Associates The success of the Company and the reputation of its brands are closely tied to the performance of the Shoppers Drug Mart Associate-owned drug stores. Accordingly, the Company relies on Associates to successfully operate, manage and execute retail programs and strategies at their respective drug store locations. Associates are independent business operators and the success of the operations and financial performance of their respective drug stores may be beyond the Company's control. In addition, Associates operate in the same regulatory framework as described above under "Franchisee Independence and Relationships". Disruptions to the Company's relationships with Shoppers Drug Mart Associate-owned drug stores or changes in legislation could negatively affect revenue from Associates, which in turn, could adversely affect the reputation, operations or financial performance of the Company.

Alternative Arrangements for Sourcing Generic Drug Products As the utilization rate of generic prescription drugs increases, the Company is pursuing alternative sourcing and procurement models for generic prescription drug products. As part of this alternative sourcing and procurement initiative, the Company has entered into contracts for the fabrication of private label generic prescription drug products. These alternative sourcing and procurement models contain certain additional risks beyond those associated with the Company's conventional procurement strategy. The most significant of these additional risks are product liability and intellectual property infringement. Product liability claims may arise in the event that the use of the Company's products cause, or are alleged to have caused, injury to consumers. Intellectual property infringement claims may arise in the event that the Company's products infringe or violate, or are alleged to infringe or violate, the patents or other intellectual property rights of any third parties, including the brand manufacturer. Both product liability and intellectual property infringement claims could be costly to defend and could result in significant liabilities and monetary damages. Failure to successfully implement these alternative sourcing and procurement models could adversely affect the reputation, operations or financial performance of the Company.

In addition, the market for generic prescription drug products and eligibility for reimbursement from governmental and other third-party payers will depend on the extent to which the products are designated as interchangeable with the branded products and are included as a benefit on the public drug plans in Canada. These interchangeability designations and benefit listings are highly regulated and will be dependent on the products and the procurement model meeting the regulatory requirements. If the demand for generic products is negatively affected by fewer designations, it could adversely affect the reputation, operations or financial performance of the Company.

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 adversely affect the reputation or 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 adversely 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 adversely 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 27% of employees of the Company, and of its franchisees and Associates, 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 adversely affect the financial performance of the Company.

The Company, together with its franchisees, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), with approximately 52,000 employees as members. In 2014, the Company contributed approximately $54 million to

CCWIPP. The recent actuarial reports filed for CCWIPP indicate that the Plan is underfunded with the accrued benefit obligations exceeding 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 adversely affect the reputation of the Company.

Workplace Health and Safety The Company recognizes that ensuring a healthy and safe workplace minimizes injuries and other risks colleagues may face in carrying out their duties, improves productivity and helps to minimize any liability or penalties which could be incurred in connection with workplace injuries. The Company has health and workplace safety programs in place and has established policies and procedures aimed at ensuring compliance with applicable legislative requirements. Failure to comply with established policies and procedures or applicable legislative requirements could result in increased workplace injury-related liability and penalties, which in turn, could adversely affect the reputation and financial performance of the Company.

Ethical Business Conduct Negative publicity about the Company's business practices may involve different aspects of its operations and may include questions relating to ethics and integrity. The Company has adopted a Code of Conduct that reflects the Company's long-standing commitment to high standards of ethical conduct and business practices. Any violation of law or breach of the Company's policies, including the Code of Conduct, could significantly affect the Company's reputation and its ability to operate, which in turn could adversely affect the reputation or financial performance of the Company.

4.3 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 adversely affect the financial performance of the Company.

The following is a list of the Company's financial risks, each of which is discussed below:

Level of Indebtedness	Foreign Currency Exchange Rates
Liquidity	Interest Rates
Choice Properties' Capital Availability	Credit
Commodity Prices	Choice Properties Unit Price

Discussion of Financial Risks

Level of Indebtedness To fund the cash portion of the acquisition of Shoppers Drug Mart, the Company utilized excess cash and significantly increased its indebtedness. Although the Company has made progress in reducing its indebtedness subsequent to the acquisition of Shoppers Drug Mart, there can be no assurance that the Company will generate sufficient free cash flow to significantly further reduce indebtedness and maintain adequate cash reserves. A failure to achieve these objectives could adversely affect the Company's credit ratings and its cost of funding.

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, their ability to obtain funding from external sources could be restricted, which could adversely affect the financial performance of the Company.

Liquidity Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash or its equivalents in a cost effective manner to fund its obligations as they come due. The Company is exposed to liquidity risk through, among other areas, PC Bank and its credit card business, which requires a reliable source of funding for its credit card business. PC Bank relies on its securitization programs and the acceptance of GIC deposits to fund the receivables of its credit cards. The Company would experience liquidity risks if it fails to maintain appropriate levels of cash and short-term investments, it is unable to access sources of funding or it fails to appropriately diversify sources of funding. If any of these events were to occur, they would adversely affect the financial performance of the Company.

Choice Properties' Capital Availability 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 a material adverse effect on the trading price of Units which would adversely affect the financial performance of the Company.

Commodity Prices The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company and the impact could be material.

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

Interest Rates 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. An increase in interest rates could adversely affect the financial performance of the Company.

Credit The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company, including derivative instruments, cash and cash equivalents, short-term investments, security deposits, PC Bank's credit card receivables, franchise loans receivable, pension assets held in the Company's defined benefit plans and accounts receivable, including amounts due from independent franchisees, government, prescription sales and third-party drug plans, independent accounts and amounts owed from vendors. Failure to manage credit risk could adversely affect the financial performance of the Company.

Choice Properties Unit Price The Company is exposed to market price risk as a result of Choice Properties' Units that are held by Unitholders other than the Company. These Units are presented as a liability on the Company's consolidated balance sheet 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.

Further information on the Company's business can be found in the MD&A. This information is incorporated herein by reference and is available at www.sedar.com or www.loblaw.ca.

5. CAPITAL STRUCTURE AND MARKET FOR SECURITIES

5.1 Share Capital

Loblaw Companies Limited's authorized share capital is composed of common shares, First Preferred Shares and Second Preferred Shares, Series A.

Common shares have voting rights of one vote per common share. The holders of common shares are entitled, subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Company, to receive any dividend declared by the Company and to receive the remaining property of the Company upon dissolution. As at January 3, 2015, there were 412,480,891 common shares issued and outstanding, an increase of 130,169,318 common shares from December 28, 2013. There are an unlimited number of authorized common shares.

Options confer upon the holder the right to purchase one common share at a price specific to each option and described upon option issuance. Over the course of fiscal 2014, 3,536,489 options were exercised resulting in the corresponding delivery of 3,536,489 common shares. As at January 3, 2015, there were 8,364,884 options outstanding, a decrease of 2,631,111 options from December 28, 2013.

The First Preferred Shares are entitled to preference over the common shares or the shares of any other class ranking junior to the First Preferred Shares with respect to the payment of dividends, and may be given such other preferences over the common shares or other shares ranking junior to the First Preferred Shares as may be determined as to the respective series authorized to be issued. The First Preferred Shares of each series rank on a parity with the First Preferred Shares of every other series with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, and the First Preferred Shares of any series may be made subject to redemption. Holders of First Preferred Shares are not entitled to vote unless and until the Company fails to pay in the aggregate eight quarterly dividends on any series of First Preferred Shares. The First Preferred Shares are limited in number to 1,000,000. No First Preferred Shares have been issued or are outstanding.

The Company is authorized to issue an unlimited number of Second Preferred Shares without nominal or par value, issuable in series. The Second Preferred Shares of each series, (i) shall rank after the First Preferred Shares to the extent that there is a conflict between the preferences, priorities and rights attaching to the two classes of preferred shares, and (ii) shall be entitled to preferences over the Common Shares and any other shares of the Company ranking junior to the Second Preferred Shares, (a) with respect to the priority in the payment of dividends and (b) with respect to the priority in the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs. The Second Preferred Shares of each series shall rank on a parity with the Second Preferred Shares of every other series with respect to priority in the payment of dividends and with respect to the priority in the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs.

The Second Preferred Shares, Series A rank after the First Preferred Shares. Holders of the Second Preferred Shares, Series A are not entitled to vote. On and after July 31, 2014 and 2015 the Company may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares for $25.50 and $25.00 respectively. On and after July 31, 2013, the Company may, at its option, convert these preferred shares into that number of common shares of the Company determined by dividing the then applicable redemption price, together with all accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 and 95% of the then current market price of the common shares. On and after July 31, 2015, these outstanding preferred shares are convertible, at the option of the holder, into that number of common shares of the Company determined by dividing $25.00, together with accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 and 95% of the then current market price of the common shares. This option is subject to the Company's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers. Second Preferred Shares, Series A are limited in number to 12,000,000. As at January 3, 2015 all of the originally issued 9,000,000 Second Preferred Shares, Series A remain outstanding with a face value of $225 million.

5.2 Share Trading Price and Volume

Loblaw Companies Limited's common shares and Second Preferred Shares, Series A are listed and posted for trading on the Toronto Stock Exchange and trade under the share symbols "L" and "L.PR.A", respectively. The monthly highs and lows and average daily volumes by month for Loblaw's common shares and Second Preferred Shares, Series A for the period beginning December 29, 2013 to January 3, 2015 were as follows:

Common Shares

Month	High ($ per share)	Low ($ per share)	Average Daily Volume by Month (in shares)
December 29-31, 2013	$42.91	$42.02	339,707
January, 2014	$44.77	$41.39	609,479
February, 2014	$46.50	$41.32	742,977
March, 2014	$48.14	$45.07	1,309,592
April, 2014	$47.68	$45.51	1,184,782
May, 2014	$47.80	$45.64	571,816
June, 2014	$48.55	$45.66	622,197
July, 2014	$54.25	$47.01	867,934
August, 2014	$54.25	$52.01	543,666
September, 2014	$58.58	$53.87	725,019
October, 2014	$59.20	$53.26	616,463
November, 2014	$61.98	$56.82	561,340
December, 2014	$63.27	$58.68	724,204
January 1-3, 2015	$63.20	$62.11	250,080

Second Preferred Shares, Series A

Month	High ($ per share)	Low ($ per share)	Average Daily Volume by Month (in shares)
December 28-31, 2014	$26.25	$26.10	1003
January, 2014	$26.40	$26.00	5,887
February, 2014	$26.27	$26.10	5,722
March, 2014	$26.36	$26.15	2,266
April, 2014	$26.47	$26.13	2,945
May, 2014	$26.45	$26.18	12,251
June, 2014	$26.39	$26.19	2,212
July, 2014	$26.39	$25.94	4,236
August, 2014	$26.17	$25.78	1,994
September, 2014	$26.00	$25.54	5,229
October, 2014	$26.14	$25.65	2,145
November, 2014	$26.05	$25.72	1,580
December, 2014	$26.05	$25.74	3,642
January 1-3, 2015	$25.82	$25.82	305

5.3 Medium Term Notes and Debt Securities

The Company's notes are not listed or quoted on a recognized exchange. These notes may be subject to certain covenants and are unsecured obligations of the Company and rank equally with all other unsecured indebtedness that has not been subordinated. In 2014, the Company repaid $100 million medium term notes and $350 million medium term notes at maturity.

Shoppers Drug Mart's notes are not listed or quoted on a recognized exchange. These notes are subject to certain covenants and are unsecured obligations guaranteed by the Company that rank equally with all other unsecured indebtedness of the Company that has not been subordinated. In the first quarter of 2014, Shoppers Drug Mart repaid $250 million medium term notes upon maturity. As at January 3, 2015, there were $500 million of Shoppers Drug Mart notes outstanding.

In the second quarter of 2014, Choice Properties Limited Partnership entered into a Master Trust Indenture agreement with Computershare Trust Company of Canada. Six supplemental indentures were created in order to facilitate the replacement of certain tranches of transferor notes issued by Choice Properties Limited Partnership and held by Loblaw, with the replacement notes containing the same principal amounts, interest rates and maturity dates as the original notes. The remaining terms and conditions are substantially similar to the original notes. Loblaw subsequently sold the replacement notes to unrelated parties and received net proceeds of $1,510 million. The Company used these proceeds to repay a corresponding amount of the $3.5 billion term loan that was used to fund a portion of the purchase price for Shoppers Drug Mart. On February 2, 2015, Choice Properties completed a $250 million offering of debentures due September 14, 2020 bearing interest at a rate of 2.297% per annum.

5.4 Credit Facilities

Effective on the closing of the acquisition of Shoppers Drug Mart, the Company drew on its $3.5 billion term loan facility to fund a portion of the purchase price and to retire all amounts owing on Shoppers Drug Mart's revolving bank credit facility, which was subsequently cancelled. Since the acquisition, the Company has repaid $2,270 million on the term loan, including the amounts repaid from net proceeds of the sale of the replacement notes referenced above. As at January 3, 2015, there was $1,230 million outstanding under the term loan. Effective on the closing of the acquisition of Shoppers Drug Mart, the Company's $800 million committed credit facility ("Credit Facility") was increased to $1.0 billion. As at January 3, 2015, there were no amounts drawn on this Credit Facility.

5.5 Trust Unit Liability

In the third quarter of 2013, Choice Properties completed a $460 million offering of Units and a $200 million private placement to Weston, including the exercise of a $60 million over allotment option. Units held by unitholders other than Loblaw are presented as a liability on the Company's consolidated balance sheet as the Units are redeemable for cash at the option of the holder, subject to certain restrictions. The Trust Unit Liability is recorded at fair value at each reporting period based on the market price of Units, with any change recorded in net interest expense and other financing charges. As at January 3, 2015, the fair value of the Trust Unit Liability was $722 million.

5.6 Credit Ratings

In the second quarter of 2014 and in the first quarter of 2015, Standard & Poor ("S&P") reaffirmed Loblaw's credit ratings and outlook.
In the fourth quarter of 2014, DBRS Limited reaffirmed Loblaw's credit ratings and outlook.

As at January 3, 2015, the credit ratings for various classes of securities of the Company were as follows:

	Standard & Poors		Dominion Bond Rating Service	
	Rating	Outlook	Rating	Trend
Issuer Credit Rating	BBB	Stable	BBB	Stable
Medium Term Notes	BBB	-	BBB	Stable
Other Notes and Debentures	BBB	-	BBB	Stable
Preferred Shares	P-3 (high)	-	Pfd-3	Stable

Following the acquisition of Shoppers Drug Mart, the Company guaranteed the outstanding medium term notes ("MTN") of Shoppers Drug Mart. S&P's subsequently changed its credit rating of Shoppers Drug Mart is outstanding MTNs to BBB with a "Stable" outlook and DBRS changed its rating to BBB with a "Stable" trend.

The rating organizations base their ratings on quantitative and qualitative considerations. These ratings are intended to give an indication of the risk that the Company will not fulfill its obligations in a timely manner. Credit ratings may not reflect the potential impact of all risks on the value of the securities. These ratings are not recommendations to buy, sell or hold securities and may be subject to revision or withdrawal by the rating organization at any time.

A definition of the categories of each rating of DBRS and S&P has been obtained from the respective rating organization's website relating to the Companies' securities and is outlined below:

S&P

Issuer Credit Rating

S&P's issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness in order to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. Issuer credit ratings can be either long-term or short-term. Short-term issuer credit ratings reflect the obligor's creditworthiness over a short-term time horizon.

Long-Term Debt (Medium Term Notes, Other Notes and Debentures)

S&P's long-term issue credit ratings range from AAA to D. The BBB rating is ranked fourth of eleven rating categories. An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Preferred Shares

S&P's Canadian scale preferred share ratings range from P-1 to D. The P-3 (high) rating is ranked third of eight rating categories. An obligation rated P-3 (high) is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

Rating Outlook

S&P's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action. A Negative outlook means that a rating may be lowered whereas a Stable outlook means that a rating is not likely to change.

An S&P CreditWatch highlights the potential direction of a short or long-term rating. It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by S&P analytical staff. These may include mergers, recapitalizations, voter referendums, regulatory action, or anticipated operating developments. Ratings appear on CreditWatch when such an event or a deviation from an expected trend occurs and additional information is necessary to evaluate the current rating. A listing, however, does not mean a rating change is inevitable, and whenever possible, a range of alternative ratings will be shown. CreditWatch is not intended to include all ratings under review, and rating changes may occur without the ratings having first appeared on CreditWatch. The "positive" designation means that a rating may be raised; "negative" means a rating may be lowered; and "developing" means that a rating may be raised, lowered, or affirmed.

DBRS

Issuer Credit Rating

DBRS corporate rating analysis begins with an evaluation of the fundamental creditworthiness of the issuer. Issuer ratings address the overall credit strength of the issuer. Unlike ratings on individual securities or classes of securities, issuer ratings are based on the entity itself and do not include consideration for security or ranking. Ratings that apply to actual securities (secured or unsecured) may be higher, lower or equal to the issuer rating for a given entity. DBRS typically assigns issuer ratings on a long-term basis using its Long-Term Obligations Rating Scale.

Long-Term Obligations (Medium Term Notes, Other Notes and Debentures)

The DBRS long-term rating scale provides an opinion on the risk of default. That is, the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. Ratings are based on quantitative and qualitative considerations relevant to the issuer, and the relative ranking of claims. All rating categories other than AAA and D also contain subcategories "(high)" and "(low)". The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category.

The BBB rating is ranked fourth of ten rating categories. Long-term obligations rated BBB are of adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. Entities rated BBB may be vulnerable to future events.

Preferred Shares

DBRS' credit rating for preferred shares range from Pfd-1 to D. The Pfd-3 rating is ranked third of six rating categories. Preferred shares rated Pfd-3 are of adequate credit quality. While protection of dividends and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection. Pfd-3 ratings generally correspond with companies whose senior bonds are rated in the higher end of the BBB category.

Rating Trends

DBRS uses "rating trends" for its ratings in the corporate sector. Rating trends provide guidance in respect of DBRS's opinion regarding the outlook for the rating in question, with rating trends falling into one of three categories – "Positive", "Stable" or "Negative". The rating trend indicates the direction in which DBRS considers the rating is headed should present tendencies continue, or in some cases, unless challenges are addressed. In general, the DBRS view is based primarily on an evaluation of the issuing entity, but may also include consideration of the outlook for the industry or industries in which the issuing entity operates.

A Positive or Negative Trend is not an indication that a rating change is imminent. Rather, a Positive or Negative Trend represents an indication that there is a greater likelihood that the rating could change in the future than would be the case if a Stable Trend were assigned to the security.

DBRS assigns a rating trend for each security of an issuing entity and it is not unusual for securities of the same entity to have different trends.

6. DIVIDENDS

The Company has paid quarterly dividends on its common shares for over 50 years. 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, 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 2014, the Board declared a 2.1% increase in the quarterly dividend, from $0.24 to $0.245 per common share, commencing with the quarterly dividend payable July 1, 2014. This increase followed a 9.1% increase in the quarterly dividend in the second quarter of 2013.

The Second Preferred Shares, Series A rank after the First Preferred Shares to the extent that there is a conflict between the preferences, priorities and rights attaching to the two classes of preferred shares, and shall be entitled to preferences over the common shares with respect to the priority in the payment of dividends. Other than the foregoing, there is currently no restriction that would prevent the Company from paying dividends at current levels. The Second Preferred Shares, Series A entitle the holder to a fixed cumulative preferred cash dividend of $1.49 per share per annum which will, if declared, be payable quarterly.

The amount of cash dividends declared in each of the three most recently completed years is as follows:

	2014	2013	2012
Dividends declared per common share	$ 0.98	$ 0.94	$ 0.85
Dividends declared per Second Preferred Share, Series A	$ 1.49	$ 1.49	$ 1.49

In the fourth quarter of 2014, the Board declared a quarterly dividend of $0.245 per common share, paid on December 30, 2014 and a quarterly dividend of $0.37 per Second Preferred Share, Series A paid on January 31, 2015.

6.1 Normal Course Issuer Bid

In the second quarter of 2014, the Company filed a Normal Course Issuer Bid (“NCIB”) to purchase shares on the TSX, or enter into equity derivatives to purchase, up to 20,636,596 common shares, representing approximately five percent of the common shares outstanding as of the date on which the Company renewed its NCIB. In accordance with the rules and by-laws of the TSX, the Company may purchase its common shares at the market price of such shares. Under this program, the Company purchased for cancellation 3,353,800 shares during the year.

7. DIRECTORS AND OFFICERS

The following list of directors and executive officers is current to January 3, 2015.

7.1 Directors

Name, Province and Country of Residence	Principal Occupation	Director Since
Galen G. Weston Ontario, Canada	Executive Chairman and President of Loblaw Companies Limited	2006
Stephen E. Bachand [2] Florida, United States	Corporate Director	2009
Paul M. Beeston, C.M.[1] Ontario, Canada	President and Chief Executive Officer, Toronto Blue Jays Baseball Team	2005
Paviter Binning Ontario, Canada	President, George Weston Limited	2014
Warren Bryant [1,4] Washington, United States	Corporate Director	2013
Christie J.B. Clark[1*,5] Ontario, Canada	Corporate Director	2011
Anthony R. Graham[2,3] Ontario, Canada	Vice Chairman, Wittington Investments Limited; President of Selfridges Group Limited; President and CEO of Summaria Inc.	1999
Holger Kluge[1, 3] Ontario, Canada	Corporate Director	2014
John S. Lacey[,3*] Ontario, Canada	Chairman of the Advisory Board, Brookfield Private Equity Group; Consultant to the Board and to the Board of George Weston Limited	2007
Nancy H.O. Lockhart, O.Ont.[2,4*] Ontario, Canada	Corporate Director	2005
Thomas C. O'Neill[2*,5*] Ontario, Canada	Corporate Director	2003
Beth Pritchard[4] Ohio, United States	Principal and Strategic Advisor for Sunrise Beauty Studio, LLC	2014
Sarah Raiss[2] Alberta, Canada	Corporate Director	2014

1. Audit Committee
2. Governance, Employee Development, Nominating and Compensation Committee
3. Pension Committee
4. Environmental, Health and Safety Committee
5. Finance Committee

* Chairman of the Committee

All directors hold office until the close of the next annual meeting of the shareholders of the Company or until their successors are duly elected or appointed.

7.2 Officers

Name, Province and Country of Residence	Principal Occupation
Galen G. Weston Ontario, Canada	Executive Chairman and President
Grant Froese Ontario, Canada	Chief Operating Officer
Sarah R. Davis Ontario, Canada	Chief Administrative Officer
Richard Dufresne Ontario, Canada	Chief Financial Officer
Gordon A.M. Currie Ontario, Canada	Executive Vice President and Chief Legal Officer
Michael Motz Ontario, Canada	President, Shoppers Drug Mart
Andrew Iacobucci Ontario, Canada	President, Discount Division
Garry Senecal Ontario, Canada	President, Market Division
Peter McLaughlin Ontario, Canada	President, Emerging Business
Barry K. Columb Ontario, Canada	President, President’s Choice Financial
Mario Grauso Ontario, Canada	President, Joe Fresh
Mary-Alice Vuicic Ontario, Canada	Executive Vice President, Human Resources and Labour Relations
Mark Butler Ontario, Canada	Executive Vice President, Business Synergies
Judy McCrie Ontario, Canada	Executive Vice President, Speed of Change and Culture
Robert Chant Ontario, Canada	Senior Vice President, Corporate Affairs and Communications

As a group, the directors and executive officers of the Company hold approximately 0.10% of the outstanding common shares.

All the foregoing directors and executive officers have held their present occupations or other positions with the same or associated companies or organizations for the past five years except: Mr. Robert Chant who was an associate at Hill and Knowlton Canada and prior to that was Chief of Staff of the Leader of the Opposition party at the Ontario Legislature; Mr. Christie J.B. Clark who was the Chief Executive Officer and senior partner of PricewaterhouseCoopers LLP; Ms. Judy A. McCrie who was Vice President, General Manager for Neilson Dairy; Mr. Mario Grauso who was President of the Vera Wang Group, and prior to that was President of Puig Fashion; Mr. Holger Kluge, who was appointed Chair of the Board of Shoppers Drug Mart Corporation from May 1, 2011 until the acquisition of Shoppers Drug Mart by the Company; Ms. Beth Pritchard, who was the Chief Executive Officer of Organized Living, Inc.; Ms. Sarah Raiss, who was Executive Vice President, Corporate Services, TransCanada Corp. from 2001 to 2011; Ms. Mary-Alice Vuicic, who joined Shoppers Drug Mart in July, 2007 as Chief Administrative Officer and Executive Vice President, Human Resources; Mr. Paviter S. Binning, who served as Chief Financial Officer of Weston until July 28, 2011 and prior to that as Chief Restructuring Officer of Nortel Networks Corporation until March of 2010; and Mr. Michael Motz, who was Chief Merchandising Officer and Executive Vice President at Shoppers Drug Mart prior to being appointed President at Shoppers Drug Mart in January, 2015.

In November of 2007, Mr. Binning was appointed Chief Financial Officer of Nortel Networks Corporation ("Nortel"). On January 14, 2009, Nortel filed for creditor protection under the Companies' Creditors Arrangement Act (the "CCAA") in Canada. As well, certain of Nortel's subsidiaries filed voluntary petitions in the United States under Chapter 11 of the U.S. Bankruptcy Code and in other jurisdictions under equivalent restructuring regimes.

In December of 1998 Mr. Lacey joined the board of directors of The Loewen Group Inc. and was acting as Chairman when it filed a petition for creditor protection under Chapter 11 of the U.S. Bankruptcy Code and CCAA in June 1999. The Loewen Group Inc. emerged from Chapter 11 in January 2003 and CCAA proceedings were held in November 2006.

In March of 2006 Mr. Lacey joined the board of directors of Stelco Inc. ("Stelco") as a nominee of Tricap Management Limited. Stelco filed for protection under the CCAA in January of 2004 and emerged from those proceedings on March 31, 2006. Mr. Lacey resigned from the Stelco board of directors in November of 2006.

Ms. Pritchard was the Chief Executive Officer of Organized Living, Inc., which filed for Chapter 11 protection on May 4, 2005 in the United States Bankruptcy Court for the Southern District of Ohio.

8. LEGAL PROCEEDINGS

As part of its normal course of operations, the Company is involved in and potentially subject to a variety of legal claims and proceedings. With the acquisition of Shoppers Drug Mart, the Company is the subject of a class action brought by two licensed Associate-owners. The claim seeks damages in the amount of $500 million based on alleged breaches of the Associate Agreement with Shoppers Drug Mart. At this stage of the proceeding any potential liability and the quantum of any loss cannot be determined. Since litigation is inherently uncertain, the outcome of this class action, and all other litigation proceedings and claims remains, uncertain. However, based on information currently available, these matters, individually and in the aggregate, are not expected to have a material impact on the Company. In the event that management's assessment of materiality of current claims and proceedings proves inaccurate or litigation that is material arises in the future, there may be a material adverse effect on the Company's operations, revenues and financial performance.

9. REGULATORY ACTIONS

The Company is not aware of any penalties or sanctions imposed by a court or securities regulatory authority or other regulatory body against the Company, nor has the Company entered into any settlement agreements before a court or with a securities regulatory authority.

10. MATERIAL CONTRACTS

The following are the only material agreements of the Company (other than certain agreements entered in the ordinary course of business):

10.1 Services Agreement

The Company has an agreement with Weston to provide certain administrative services by each company 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 portion of such costs. Net payments under this agreement in 2014 were $18 million. Fees paid under this agreement are reviewed each year by the Audit Committee.

10.2 Credit Facilities

The Company has a $3.5 billion, unsecured syndicated term credit facility agreement (the "Term Facility"), which was drawn on the closing of the acquisition of Shoppers Drug Mart on March 28, 2014 and which will mature five years from such date. As at January 3, 2015, there was $1,229.6 million outstanding under the Term Facility.

Under the Term Facility, the Company must maintain a ratio of net debt (as of the last day of each fiscal quarter) to EBITDA (earnings before interest, income taxes, depreciation and amortization calculated in the manner prescribed by the Term Facility agreement) for the last four quarters then ended of not more than 4.0:1, and a ratio of EBITDA to interest expense (subject to certain exclusions identified in the Term Facility agreement) for the last four quarters then ended of at least 2.75:1.

The Company also has a $1 billion unsecured syndicated revolving credit facility agreement (the "Revolving Facility") which matures on December 31, 2018. The proceeds of the Revolving Facility are used for general corporate purposes.

Under the Revolving Facility, the Company must maintain a ratio of net debt as of the last day of each fiscal quarter to EBITDA (as defined in the Revolving Facility agreement) for the last four quarters then ended of not more than 4.0:1, and a ratio of EBITDA to interest expense (subject to certain exclusions identified in the Revolving Facility agreement) for the last four quarters then ended of at least 2.75:1.

11. TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar of the Company is Computershare Investor Services Inc., located in Toronto, Canada.

12. EXPERTS

The Company's auditors are KPMG LLP, who have prepared the Independent Auditors' Report to Shareholders in respect of the audited annual consolidated financial statements. KPMG LLP have confirmed that it is independent with respect to the Company within the meaning of the rules and related interpretations prescribed by the relevant professional bodies in Canada.

13. AUDIT COMMITTEE INFORMATION

The Audit Committee Charter, as approved by the Company's Board on April 29, 2014, is included in Appendix A. The members of the Audit Committee are indicated above in section 7 of this AIF. All members of the Audit Committee are independent and financially literate (as those terms are defined in Multilateral Instrument 52-110 of the Canadian Securities Administrators) and have the following education and experience which is relevant to their roles as Audit Committee Members:

> Mr. Beeston is a Fellow Chartered Accountant and a Fellow Chartered Professional Accountant, and the President and Chief Executive Officer of Toronto Blue Jays Baseball Club, and the former President and CEO of Major League Baseball. He received a B.A. from the University of Western Ontario.

Mr. Bryant is the former Chairman, President and Chief Executive Officer of Longs Drug Stores. Mr. Bryant obtained his B.S. from California State University and an M.B.A. from Azusa Pacific University. Mr. Bryant is also a graduate of the Executive Financial Management Program at Harvard University.

Mr. Clark is a Fellow Chartered Accountant and a Fellow Chartered Professional Accountant, and the former Chief Executive Officer and senior partner of PricewaterhouseCoopers LLP in Canada. He also held various senior management positions at PricewaterhouseCoopers LLP. He has a Bachelor of Commerce degree from Queen's University and a Masters of Business Administration from the University of Toronto.

Mr. Kluge is the former President of Personal and Commercial Banking at the Canadian Imperial Bank of Commerce. Mr. Kluge holds a B. Comm. from Sir George Williams University and an M.B.A. from Sophia University (Tokyo, Japan).

14. EXTERNAL AUDIT FEES

The following table sets forth the aggregate fees billed for professional services rendered by the independent external auditors, KPMG LLP, for the fiscal years 2014 and 2013, respectively:

($000's)	2014 Actual	2013 Actual
Audit fees(1)	$ 6,073	$ 6,516
Audit-related fees(2)	518	552
Tax-related fees(3)	262	29
All other fees(4)	11	14
Total Fees(1)	$ 6,864	$ 7,111

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(1) Audit fees include fees for services related to the audit of the Corporation's consolidated financial statements, including the audit of Shoppers Drug Mart (beginning in 2014), Choice Properties and President's Choice Bank (each a subsidiary of the Corporation). Audit fees also include fees for services related to the review of quarterly reports, auditor involvement with filings related to the acquisition of Shoppers Drug Mart in 2014 and Choice Properties initial public offering and debt prospectuses in 2013, audit procedures performed relating to the Corporation's IT system conversion, and the interpretation of accounting and financial reporting standards.

(2) Audit-related fees include fees for French translation services associated with the Corporation's financial and regulatory filings and the audit of pension plans.

(3) Tax-related fees include fees for tax compliance services and advice.

(4) All other fees are for services related to legislative and/or regulatory compliance.

As part of the Corporation's corporate governance practices, the Audit Committee has adopted a policy prohibiting the external auditors from providing non-audit services to the Corporation or its subsidiaries unless the services are approved in advance by the Audit Committee. The external auditors are required to report directly to the Audit Committee.

15. ADDITIONAL INFORMATION

1. Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Company's Management Proxy Circular for the Annual Meeting of shareholders to be held on May 7, 2015. Additional financial information is also provided in the Company's consolidated financial statements and MD&A for its most recently completed financial year.

2. Additional information has been filed on the System for Electronic Document Analysis and Retrieval (SEDAR) available online at www.sedar.com, and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, PC Bank.

3. Additional information of Choice Properties has been filed on SEDAR available online at www.sedar.com. Choice Properties' internet address is www.choicereit.ca.

The Company's internet address is: www.loblaw.ca.

Appendix “A”

Audit Committee Charter

1. RESPONSIBILITY

The Audit Committee is responsible for assisting the Board of Directors of the Company (“Board”) in fulfilling its oversight responsibilities in relation to:

- the integrity of the Company’s financial statements;
- the Company’s compliance with legal and regulatory requirements as they relate to the Company’s financial statements;
- the qualifications, independence and performance of the Company’s external auditor (the “Auditor”);
- the enterprise risk management process;
- internal control over financial reporting and disclosure controls and procedures;
- the performance of the Company’s internal audit function; and
- performing the additional duties set out in this Mandate or otherwise delegated to the Audit Committee by the Board.

2. MEMBERS

The Board shall appoint a minimum of three directors to be members of the Audit Committee. The members of the Audit Committee shall be selected by the Board on recommendation of the Governance, Employee Development, Nominating and Compensation Committee of the Company, and shall be selected based upon the following, to the extent that the following are required under applicable law:

- each member shall be an independent director; and
- each member shall be financially literate.

For the purpose of this Mandate, the terms “independent” and “financially literate” shall have the respective meanings attributed thereto in Multilateral Instrument 52-110 *Audit Committees*, as the same may be amended from time to time.

3. CHAIR

Each year, the Board shall appoint one member to be Chair of the Audit Committee. If, in any year, the Board does not appoint a Chair, the incumbent Chair shall continue in office until a successor is appointed. The Board has adopted and approved a position description for the Chair which sets out his or her role and responsibilities.

4. TENURE

Each member shall hold office until his or her term as a member of the Audit Committee expires or is terminated.

5. QUORUM, REMOVAL AND VACANCIES

A majority of the Audit Committee’s members shall constitute a quorum. Any member may be removed and replaced at any time by the Board. The Board shall fill vacancies in the Audit Committee by appointment from among the members of the Board. If a vacancy exists on the Audit Committee, the remaining members may exercise all powers so long as a quorum remains in office.

6. DUTIES

The Audit Committee shall have the duties set out below as well as any other duties that are specifically delegated to the Audit Committee by the Board.

(a) Appointment and Review of Auditor

The Auditor is ultimately accountable to the Audit Committee as representatives of the shareholders. The Audit Committee has direct responsibility for overseeing the work of the Auditor. Accordingly, the Audit Committee shall evaluate and be responsible for the Company’s relationship with the Auditor. Specifically, the Audit Committee shall:

- select, evaluate and nominate the Auditor for appointment or reappointment by the shareholders;
- review the Auditor's engagement letter;
- at least annually, obtain and review a report by the Auditor describing:
  - the Auditor's internal quality-control procedures; and
  - any material issues raised by the most recent internal quality-control review, peer review, review by any independent oversight body such as the Canadian Public Accountability Board or governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the Auditor, and the steps taken to deal with any issues raised in these reviews.

(b) Confirmation of Independence of Auditor

At least annually, and before the Auditor issues its report on the annual financial statements, the Audit Committee shall:

- ensure that the Auditor submits a formal written statement describing all relationships between the Auditor and the Company;
- discuss with the Auditor any disclosed relationships or services that may affect the objectivity and independence of the Auditor; and
- obtain written confirmation from the Auditor that it is objective and independent within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of Chartered Accountants to which it belongs.

(c) Rotation of Engagement Partner/Lead Partners

The Audit Committee shall, after taking into account the opinions of management, evaluate the performance of the Auditor and the engagement partner/lead partners and shall rotate the engagement partner/lead partners when required or necessary.

(d) Pre-Approval of Non-Audit Services

The Audit Committee shall pre-approve the retaining of the Auditor for any non-audit service, provided that no approval shall be provided for any service that is prohibited under the rules of the Canadian Public Accountability Board or the Independence Standards of the Canadian Institute of Chartered Accountants. Before retaining the Auditor for any non-audit service, the Audit Committee shall consider the compatibility of the service with the Auditor's independence. The Audit Committee may pre-approve retaining the Auditor for the engagement of any non-audit services by establishing policies and procedures to be followed prior to the appointment of the Auditor for the provision of such non-audit services. In addition, the Audit Committee may delegate to the Chair or one or more members the authority to pre-approve retaining the Auditor for any permissible non-audit service. The decisions of the Chair or any member of the Audit Committee to whom this authority has been delegated, as well as any pre-approvals of a particular service, will be presented to the full Audit Committee at its next scheduled Audit Committee meeting.

(e) Communications with Auditor

The Audit Committee shall meet privately with the Auditor as frequently as the Audit Committee feels is appropriate for the Audit Committee to fulfil its responsibilities (which shall not be less frequently than quarterly) and to discuss any concerns of the Audit Committee or the Auditor, such as:

- matters that will be referred to in the Auditor's management letter;
- whether or not the Auditor is satisfied with the quality and effectiveness of the financial reporting procedures and systems;
- the extent to which the Auditor is satisfied with the nature and scope of its examination and management's cooperation and responsiveness to matters arising from such examination.

(f) Review of Audit Plan

The Audit Committee shall review a summary of the Auditor's audit plan in advance of each audit.

(g) Approval of Audit Fees

The Audit Committee has the responsibility for approving the Auditor's fees. In approving the Auditor's fees, the Audit Committee should consider, among other things, the number and nature of reports issued by the Auditor, the quality of the internal controls, the impact of the size, complexity and financial condition of the Company on the audit work plan, and the extent of internal audit and other support provided by the Company to the Auditor.

(h) Review of Annual Audited Financial Statements

The Audit Committee shall review the annual audited financial statements, together with the Auditor's report thereon and the related MD&A, before recommending them for approval by the Board, to assess whether or not they present fairly in all material respects in accordance with GAAP (which includes International Financial Reporting Standards) the financial condition, results of operations and cash flows of the Company.

In conducting their review, the Audit Committee should:

- discuss the annual audited financial statements and MD&A with management and the Auditor;
- consider the quality of, and not just the acceptability of, the accounting principles applied, the reasonableness of management's judgments and estimates that have a significant effect upon the financial statements, and the clarity of the disclosures in the financial statements;
- discuss with the Auditor its report which addresses:
    - all critical accounting policies and practices to be used;
    - all alternative treatments of financial information within GAAP that have been discussed with management of the Company, ramifications of the use of alternative disclosures and treatments, and the treatment preferred by the Auditor; and
    - other material written communication between the Auditor and management of the Company, such as any management letter or schedule of unadjusted differences;
- discuss any analyses prepared by management and the Auditor that set out significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP;
- discuss the effect of off-balance sheet transactions, arrangements, obligations (including contingent liabilities) and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Company's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses;
- consider any changes in accounting practices or policies and their impact on financial statements of the Company;
- discuss with management, the Auditor and, if necessary, legal counsel, any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position of the Company, and the manner in which these matters have been disclosed in the financial statements;
- discuss with management and the Auditor correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies;
- discuss with the Auditor any special audit steps taken in light of any material weaknesses in internal control;
- discuss with the Auditor any difficulties encountered in the course of the audit work, including any restrictions on the scope of their procedures and access to requested information, accounting adjustments proposed by the Auditor that were not applied (because they were immaterial or otherwise), and significant disagreements with management;
- consider any other matter which in its judgment should be taken into account in reaching its recommendation to the Board concerning the approval of the financial statements;
- satisfy itself that appropriate accounting policies and practices have been selected and applied consistently; and
- satisfy itself that management has established appropriate procedures to comply with applicable legislation for the remittance of taxes, pension monies and employee remuneration.

(i) Review of Interim Financial Statements

The Audit Committee shall also engage the Auditor to review the interim financial statements prior to the Audit Committee's review of such financial statements. The Audit Committee should discuss the interim financial statements and related MD&A with management and the Auditor and, if satisfied that the interim financial statements present fairly in all material respects in accordance with GAAP the financial condition, results of operations and cash flows, recommend the interim financial statements and the related MD&A to the Board for approval.

(j) Other Financial Information

The Audit Committee shall review other financial-related releases, as well as the nature of any financial information and earnings guidance provided to analysts and rating agencies in accordance with the Company's disclosure policy. In addition, the Audit Committee shall satisfy itself that adequate procedures are in place for the review of the public disclosure of information extracted or derived from the Company's financial statements and must periodically assess the adequacy of those procedures.

(k) Review of Prospectuses and Other Regulatory Filings

The Audit Committee shall review all other financial statements of the Company that require approval by the Board before they are released to the public, including, without limitation, financial statements for use in prospectuses or other offering or public disclosure documents and financial statements required by regulatory authorities. The Audit Committee shall review the Annual Information Form of the Company prior to its filing.

(l) Review of Related Party Transactions

The Audit Committee shall review all material proposed related party transactions that are not dealt with by a "special committee" of "independent directors" pursuant to securities law rules.

(m) Review of Internal Audit Services

The Audit Committee shall review the mandate of Internal Audit Services, the budget, planned activities and organizational structure of Internal Audit Services to ensure that it is independent of management and has sufficient resources to carry out its mandate. The members shall meet privately with the senior officer in charge of internal audit as frequently as the Audit Committee feels is appropriate for the Audit Committee to fulfil its responsibilities, which shall not be less frequently than quarterly, to discuss any areas of concern to the Audit Committee or to the senior officer in charge of internal audit to confirm that:

- significant resolved and any unresolved issues between auditors and management have been brought to its attention;
- the principal risks of the Company's businesses have been identified by management and appropriate policies and systems have been implemented to manage these risks; and
- the integrity of the Company's internal control and management information systems are satisfactory.

(n) Relations with Management

The members shall meet privately with management as frequently as the Audit Committee feels is appropriate to fulfil its responsibilities, which shall not be less frequently than quarterly, to discuss any concerns of the Audit Committee or management.

(o) Oversight of Internal Control over Financial Reporting and Disclosure Controls and Procedures

The Audit Committee shall, with the assistance of management, review the design and operating effectiveness of (i) the internal control over financial reporting adopted by the Company, and (ii) the disclosure controls and procedures that have been adopted to ensure the timely disclosure of all material information about the Company and its subsidiaries as required by applicable law or security exchange rules.

The Audit Committee shall receive regular reports from the Company's Disclosure Committee and Internal Control Compliance group with respect to the Company's system of disclosure controls and procedures and internal control over financial reporting, including annual plans as applicable.

The Audit Committee shall also review no less than annually the Company's Disclosure Policy.

(p) Legal Compliance

The Audit Committee shall review with legal counsel any legal matters that may have a significant effect on the Company's financial statements. The Audit Committee should review with legal counsel material inquiries received from regulators and governmental agencies. The Audit Committee shall review with a representative of the Ethics and Conduct Committee any material matters arising from any known or suspected violation of the Company's Code of Conduct with respect to financial and accounting matters and any material concerns regarding questionable accounting or auditing matters raised through the Company's Integrity Action Line or otherwise.

(q) Enterprise Risk Management

The Audit Committee shall satisfy itself as to the effective risk management of the individual risks for which such oversight has been delegated to the Audit Committee by the Board, through the receipt of periodic reports from Internal Audit Services and management. The Chair of the Audit Committee shall periodically report to the Board on any major issues arising with respect to the risk management for such risks.
The Audit Committee shall also oversee the Company's anti-fraud programs and controls, including its policies and procedures over fraud risk assessments and fraud risk management.

(r) Taxation Matters

The Audit Committee shall review the status of taxation matters of the Company.

(s) Hiring Policies

The Audit Committee shall review and approve the Company's hiring policies with respect to partners and professional employees of present and former external auditors of the Company.

7. COMPLAINTS PROCEDURE

The Audit Committee shall monitor the effectiveness of the Company's procedures for the receipt, retention and follow-up of complaints received by the Company regarding accounting, internal controls, disclosure controls or auditing matters and for the confidential, anonymous submission of concerns by employees of the Company regarding accounting, internal controls, or auditing matters. The Audit Committee shall also determine whether management's response to any such complaints has been satisfactory or whether further actions or investigations are required. The Audit Committee shall review and annually approve the Company's Accounting, Auditing and Internal Controls Complaints Procedures. The Committee shall review with management periodic reports in this regard.

8. Reporting

The Audit Committee shall report to the Board on:

- the Auditor's independence;
- the performance of the Auditor and the Audit Committee's recommendations regarding the reappointment or termination of the Auditor;
- the performance of the internal audit function;
- the design and operating effectiveness of the Company's internal control over financial reporting and disclosure controls and procedures;
- the Audit Committee's review of the annual and interim financial statements of the Company and any GAAP reconciliation, including any issues with respect to the quality or integrity of the financial statements, along with the MD&A, and shall recommend whether or not the Board should approve the financial statements and any GAAP reconciliation and the MD&A;
- the Audit Committee's review of the Annual Information Form;
- the Company's compliance with legal and regulatory matters to the extent they affect the financial statements of the Company;
- the management of those risks for which oversight has been delegated by the Board to the Audit Committee pursuant to the enterprise risk management program; and
- all other material matters dealt with by the Audit Committee.

9. Review and Disclosure

This Mandate should be reviewed by the Audit Committee at least annually and be submitted to the Governance, Employee Development, Nominating and Compensation Committee for consideration with such amendments as the Audit Committee proposes and for recommendation to the Board for approval with such further amendments as the Governance, Employee Development, Nominating and Compensation Committee proposes.

This Mandate shall be posted on the Company's website.

10. FREQUENCY OF MEETINGS AND IN CAMERA SESSIONS

The Audit Committee shall meet at least five times annually. Following each regularly-scheduled meeting of the Audit Committee, the Committee members shall meet in private session.

11. RETENTION OF EXPERTS

The Audit Committee may engage such special legal, accounting or other experts, without Board approval and at the expense of the Company, as it considers necessary to perform its duties.