Loblaw

COMPANIES LIMITED

# UPDATED AND RESTATED ANNUAL INFORMATION FORM

**(for the year ended December 28, 2013; updated to June 2, 2014)**

**June 2, 2014**

**LOBLAW COMPANIES LIMITED**

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## DATE OF INFORMATION

All information in this Updated and Restated Annual Information Form ("AIF") is current as of June 2, 2014, 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 and events, targeted synergies expected following the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), future liquidity, planned capital expenditures, amount of pension plan contributions, status and impact of information technology ("IT") systems implementation and future plans. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

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

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

- failure to realize the anticipated strategic benefits or operational, competitive and cost synergies following the acquisition of Shoppers Drug Mart;
- failure to realize benefits from investments in the Company's IT systems, including the Company's IT systems implementation, or unanticipated results from these initiatives;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including those from restructuring;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business;
- 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;
- failure to respond to changes in consumer tastes and buying patterns;
- reliance on the performance and retention of third-party service providers, including those associated with the Company's supply chain and apparel business;
- supply and quality control issues with vendors in both advanced and developing markets;

- the impact of potential environmental liabilities;
- any requirement of the Company to make contributions to its registered funded defined benefit pension plans or the multi-employer pension plans in which it participates in excess of those currently contemplated;
- the risk that the Company would experience a financial loss if its counterparties fail to meet their obligations in accordance with the terms and conditions of their contracts with the Company; and
- the inability of the Company to collect on 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.

## CORPORATE STRUCTURE

### 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.

### 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 business, is given 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"), of which the Company holds an 82.6% effective interest, including its subsidiary, Choice Properties Limited Partnership.

| Subsidiary | Jurisdiction of Incorporation/Formation |
|---|---|
| Loblaws Inc. | Ontario |
| Shoppers Drug Mart Corporation | Canada |
| Shoppers Drug Mart Inc. | Canada |
| President's Choice Bank | Canada |
| Choice Properties Limited Partnership | Ontario |
| Choice Properties Real Estate Investment Trust | Ontario |
| JFS Inc. | Delaware |
| T&T Supermarket Inc. | British Columbia |

## GENERAL DEVELOPMENT OF THE BUSINESS

The Company is Canada's largest grocery retailer and, with the acquisition of Shoppers Drug Mart, is now Canada's largest pharmacy and beauty retailer. The Company is also a leading provider of apparel, general merchandise and financial products and services. The Company has three reportable operating segments. The Retail segment consists primarily of retail food and Shoppers Drug Mart Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, gas bars, apparel and other general merchandise. The Financial Services segment includes credit card services, insurance services, personal banking services provided by a major Canadian chartered bank, deposit taking services, and telecommunication services. The Choice Properties segment owns and leases income-producing commercial properties.

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. The Company has also taken measures to improve the experience of many of its retail grocery stores. It has sought to reinforce competitive differentiation by: providing innovative control brand products; expanding its selection of international and health and wellness products; exploring opportunities to add new capabilities such as in-store medical clinics and dietitians to meet the evolving needs of Canadian consumers; and optimizing its general merchandise selection to better align with its food offering. In addition, the Company's supply chain renewal project has improved product availability and led to higher levels of efficiency. The implementation of the Company's new IT systems that began in 2012 is ongoing. As at June 2, 2014, the Company's new IT systems have been expanded to 18 distribution centres and over 260 stores.

In 2013, the Company advanced a number of strategic initiatives that were introduced in 2012. Efficiencies were achieved in shrink, transportation costs, warehousing, other supply chain related costs and labour. The Company also focused on its strategy to invest in lower shelf pricing to build long-term customer loyalty. In May, 2013, the Company launched its *PC Plus* digital loyalty program at an initial pilot group of 44 Market (formerly "Conventional") grocery stores in Ontario. In November, 2013, the *PC Plus* program was expanded across Market stores nationally and across the *Real Canadian Superstore* network and by with over 5 million members by June 2, 2014.

In addition, in 2013, Choice Properties was created and the Company entered into an arrangement agreement to acquire all of the outstanding common shares of Shoppers Drug Mart for consideration of approximately $6.6 billion of cash and the issuance of approximately 119.5 million common shares. On March 28, 2014, the Company completed the acquisition of Shoppers Drug Mart. Further details relating to these significant strategic initiatives are found below and elsewhere in this AIF.

For the balance of 2014, the Company expects to advance a number of the strategic initiatives that were underway in 2013. The Company plans to continue to invest in innovative products, services and channels in order to maintain its competitive position. It expects to advance efficiency initiatives, with a focus on rolling-out its new IT systems through the corporate grocery store network and remaining Loblaw distribution centres. In addition, the Company will focus on achieving anticipated strategic benefits and operational, competitive and cost synergies following the acquisition of Shoppers Drug Mart. The Company expects to achieve annualized synergies of $300 million in the third full year following the close of the transaction (net of related costs). First year synergies are expected to be generated primarily from improved cost of goods sold and from purchasing efficiencies in goods not for resale.

*Choice Properties*

During the third quarter of 2013, Choice Properties completed a $460 million Initial Public Offering ("IPO") of Trust Units ("Units"), including the exercise of a $60 million over-allotment option. In connection with the IPO, the Company sold approximately $7 billion of properties and related assets to Choice Properties. Concurrently with the IPO, George Weston Limited ("Weston"), which owns approximately 46% of the outstanding common shares of the Company, indirectly purchased, through two wholly-owned subsidiaries, 20,000,000 Units from Choice Properties at a price of $10.00 per Unit for a total subscription price of $200 million.

*Acquisition of Shoppers Drug Mart*

On March 28, 2014, the Company completed the acquisition of Shoppers Drug Mart. The acquisition brought together two iconic Canadian brands and harnesses the complementary strengths of the nation's number one grocery retailer and number one pharmacy and beauty retailer. It strengthens the Company's competitiveness in an evolving retail landscape, creating new growth opportunities for shareholders.

It will give consumers more choice, value and convenience through Canada's largest retail network of unmatched store formats, including Shoppers Drug Mart's important and growing footprint in the small-urban drug store sector.

In addition to its traditional corporate in-store pharmacy model (and licensee model in Québec), the Company now operates, through its subsidiary, Shoppers Drug Mart, an Associate-owned drug store model. The Associate-owned model combines the principles of a franchise arrangement, through the licensing of drug stores to individual Associates, with the benefits of a corporate infrastructure. 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. 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 Québec where an initial investment is required.

As a result of the acquisition of Shoppers Drug Mart, the Company benefits from conveniently located *Shoppers Drug Mart/Pharmaprix* drug stores and a number of value-added services developed by Shoppers Drug Mart for its patients and customers, including the *HealthWatch/PharmExpert* program, which provides Associates with tools to assist in patient counseling on medications, disease management and health and wellness, and the *Shoppers Optimum/Pharmaprix Optimum* program, one of the largest retail loyalty card programs in Canada. In most of its stores, Shoppers Drug Mart also provides additional service to its customers by offering free home delivery on all orders that include the purchase of prescription drugs or over-the-counter ("OTC") medications. Shoppers Drug Mart also offers on-line prescription refills through a mobile *app* and via its website, www.shoppersdrugmart.ca.

**Retail**

The Retail segment consists primarily of retail food and Shoppers Drug Mart Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, gas bars, apparel and other general merchandise.

*Customer Proposition*

The Company's customer proposition is the combination of value, experience and product assortment that it offers to its customers. Over the last three years, the Company has progressively worked to strengthen its customer proposition by enhancing its focus on fresh product quality, presentation and assortment, customer service and competitive value.

In 2011, the Company continued its program of grocery store network renovations that began in 2009, and targeted sourcing enhancements were implemented to support a broader product offering. The retail business was also separated into Market and Discount divisions in order to better address the distinct needs of its customers.

In 2012, the Company invested in its competitive value proposition as well as in product assortment in a number of fresh areas and related colleague training. Continued conversion to labour agreements ratified in 2010, as well as the roll out of an improved Store Time and Attendance System ("STAS"), enabled the Company to leverage additional scheduling efficiencies. In 2012, the Company also began a process of developing and implementing category reviews across the Market and Discount divisions with the objective of improving the competitiveness, profitability and relevance of individual categories.

In 2013, the Company continued its focus on expanding product assortment in fresh and delivering superior value to customers. In the Market division, the Company expanded its assortment in fresh with new offerings in organic, gluten-free, and vacuum-sealed packaging in meat products that offer longer shelf-life without compromising taste and quality. The Company also took popular chef-inspired recipes from the *Loblaws* store at Maple Leaf Gardens[1] and implemented them in 63 grocery stores across its Market network. In the Discount division, the Company led with a focused offering in fresh and building customer loyalty through fair and sustainable pricing, resulting in sales and tonnage growth despite a highly competitive environment. The Discount division also continues to drive its offering in international and natural foods, which it believes is a source of competitive advantage.

*Health and Wellness*

Health and Wellness is an important component of the Company's customer proposition and its business. As a result of the acquisition of

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

Shoppers Drug Mart, the Company now has a network of nearly 1,800 Shoppers Drug Mart Associate-owned drug stores and in-store pharmacies providing a full range of health and wellness products and services to millions of customers each week.

In 2011, the Company launched the “Get Checked Now” campaign in partnership with the Canadian Diabetes Association to provide Canadians with personalized, computerized diabetes risk assessments under the direction of a Company pharmacist. The Company also pilot tested the Guiding Stars program, a nutrition navigation tool that rates food based on its nutritional value, in select corporate grocery stores.

In 2012, the Company acquired prescription files from 106 Zellers stores. In addition, 14 medical clinics and 18 optical departments were added to the Company’s grocery stores. The Company’s successful program of placing dieticians in grocery stores was expanded with 50 additional stores better equipped to assist customers with their nutrition concerns. The Guiding Stars nutrition navigation program was further expanded during 2012 with over 40 grocery stores participating by the end of the year.

In 2013, the Company opened 27 new optical departments and renovated 14, bringing the total number to 141 optical departments in grocery stores. With locations added in Prince Edward Island and Yukon, the Company has optical departments in all provinces except for Québec. Licensed opticians are available at every location, and the Company offers eye exams through independent doctors of optometry at over 100 locations. In provinces where pharmacists’ scope of practice has been expanded, 365 corporate in-store pharmacy sites were certified resulting in corporate in-store pharmacists administering over 100,000 flu shots. Dietitians were added to 46 grocery stores and 13 medical clinics were added. The Guiding Stars nutrition navigation program was expanded to an additional 324 grocery stores by year end. GoodLife Fitness facilities are also on location at approximately 58 grocery store locations.

For the balance of 2014, the Company will add medical clinics to additional grocery stores, expand its dietitian program, continue to roll out the Guiding Stars program, and offer other differentiated services that bridge the gap between food and health.

*International Products*

The Company serves the diverse Canadian population both through its standalone T&T Supermarket Inc. (“T&T”) grocery stores as well as through a comprehensive in-line assortment of international products in the Company’s other banner grocery stores. The Company strengthened its existing foothold in this growing segment through its purchase of T&T in September, 2009.

Over the past three years, the Company has continued to emphasize the international products segment as a driver of future growth. In 2011, T&T launched an expanded line-up of *T&T* control brand products in its grocery stores. As part of T&T’s growth plans, one new store was opened in Ontario in 2011.

In 2012, T&T’s footprint continued to expand with two new *T&T Supermarket* stores in Ontario. T&T also launched the *Be Beauty by T&T* concept in one of its stores during 2012 to offer its customers familiar branded beauty products as well as in-store pharmacy services in Chinese. South and East Asian product assortment was also introduced in the Company’s self-serve wholesale grocery banner stores. A collection of *T&T* control brand products were piloted in select Market and Discount stores.

The Company continues to promote and expand distribution of its *Rooster*, *Suraj* and *Sufra* product ranges across all banners. In 2013, coinciding with Chinese New Year, the Company rolled out 33 *T&T* control brand products to grocery stores across the national network. The Company also launched 22 fresh *T&T* bakery products in select Ontario *Loblaws*, *nofrills* and *Real Canadian Superstore* locations. The strategy behind the Company’s international control brand products is to offer bestselling authentic items with cross-over appeal.

In 2013, the Company also expanded its international assortment in its 120 most diverse markets, aligning specific grocery store offerings closely with market demographics. The Company promoted this initiative with zoned flyers highlighting the specific market assortment for the remainder of the year. The Company also launched the well-received “I Speak” program, where colleague name badges and cash lanes identify languages in which they can interact with customers.

In early 2014, the Company expanded its selection of control brand international products with the launch of 25 additional products for Chinese New Year. For the remainder of 2014, the Company plans to continue to expand its multicultural assortment across the store network throughout the year with a heightened emphasis on South Asian, Middle Eastern, and Halal products. To further that objective, on April 9, 2014, the Company acquired Arz Bakery Limited, an established Middle Eastern bakery and grocery retailer.

*Control Brands*

The Company offers a control brand program that encourages customer loyalty and price competitiveness. Over the past three years, the Company has increased its focus on profitability and innovation in its food-related control brand program.

In 2011, the Company undertook a number of initiatives to improve the profitability of its control brand offering, focusing on innovation, including the introduction of its new *PC* black label line of products, a collection of fine foods sourced from around the world. This was the first new line launched by the Company since 2005. 162 *PC* black label products were launched into 140 Market stores in the fourth quarter of 2011. In addition, the Company successfully redesigned over 400 *Blue Menu* products to make it easier for consumers to understand the attributes of the products. To further enhance its offerings for health-conscious customers, the Company also launched 13 new *PC Organics* baby food products and 20 new peanut-free products, which brought the offerings in these two areas to over 60 and 80 products, respectively. T&T also launched an expanded lineup of *T&T* control brand products in *T&T Supermarket* stores as discussed above.

In 2012, the Company continued to expand its control brand selection with a broad focus on innovation, and additional products in areas such as health and wellness and international products. During the year, eight gluten-free items under the *President's Choice* brand were introduced by the Company. The *President's Choice* brand was the first control brand line in Canada to meet the Canadian Celiac Association's Gluten-Free Certification Program requirements to display the GFCP trademark. The Company's *PC Free From* product line was extended into frozen boxed and processed meats to offer a greater range of alternatives for consumers seeking antibiotic and hormone-free products. The packaging of 235 *PC Organics* products was redesigned and additional in-store signage was introduced to make it easier for consumers to shop for natural and organic products. The Company's *PC* black label line was expanded to over 250 products with a focus on additions to existing categories such as pasta and cheese. *PC* black label products were rolled out to over 240 additional grocery stores over the course of 2012. By the end of the year, over 380 grocery stores were stocked with *PC* black label products.

In 2013, the Company launched over 550 new control brand products and redesigned or improved approximately 640 control brand products. Nine *President's Choice* gluten-free items were added, bringing the total offering to 17. The *PC Free From* product line now offers a total of 70 different products and *PC Organics* saw 23 new products launched. The Company's *Farmers Market* Root Vegetable Program offers "Grower Picture" and "Grower Story" on all packages across 22 different products representing 44 vendors nationally. *PC Organics* became the number one selling organic baby food in Canada and *PC Nutrition First* is leading growth in the pet food category. In 2013, the Company also focused on making some of its biggest brands bigger by adding middles, doubles, and soft baked varieties to the *PC The Decadent* cookies product line. *PC* black label products also continued to expand with 29 additional products in grocery, dessert, home meal replacement, and deli. Through continued improvement and innovation, all artificial flavours and colours have been removed from *President's Choice* products and all artificial sweeteners have been removed from *Blue Menu* products.

With the acquisition of Shoppers Drug Mart, the Company now offers consumers additional control brand drug store products marketed under various trademarks, including *Life Brand*, which is Shoppers Drug Mart's most recognized control brand, value-added services such as the *HealthWatch/PharmExpert* program, which provides Associates with tools to assist in patient counselling on medications, disease management and health and wellness, and the *Shoppers Optimum/Pharmaprix Optimum* program, one of the largest retail loyalty card programs in Canada.

In 2014, the Company will continue to build out the *PC* black label and *PC Free From* product lines, continue to focus on fresh, and further its commitment to health and wellness, including reducing sodium content and removing artificial sweeteners in *President's Choice* products. In addition, in 2014, the Company will continue to introduce select *President's Choice* products in certain Shoppers Drug Mart Associate-owned drug stores and select Shoppers Drug Mart control brand products in the Company's grocery stores.

*Apparel and General Merchandise*

The Company offers a broad selection of apparel and general merchandise in a number of its banner stores and also offers apparel in free-standing *Joe Fresh* stores in Canada and the United States. The Company's primary objective is to provide a suite of apparel and general merchandise products that complement its food offering.

In 2011, the Company began to execute its Right Hand Side strategy, which centres on enhancing the selection of merchandise in four key areas: Apparel, Beauty, Home and Kids. This strategy was implemented in order to better align the Company's general merchandise selection with its food offering. The Company also launched a number of new control brand product lines, including *Jogi* and *J±*.

In 2012, the Company continued to reset the general merchandise sections of its grocery stores and conducted 78 Right Hand Side related projects. As part of the renewal program, the beauty areas of approximately 80 stores were revitalized with a new look, concept and feel. The *Jump Kids World* brand was introduced in 2012, offering a colourful line of kids' products in categories such as tabletop, décor, storage, organization, bath and closet. In 2013, 29 Right Hand Side renovations were performed, bringing the total to 129.

In 2011, the Company expanded the *Joe Fresh* retail footprint by adding 10 new standalone stores, including five locations in the United States, and expanding total apparel retail space by 10%. In 2012, the Company announced a relationship with J.C. Penney Corporation, Inc. ("JCPenney") and in March, 2013, launched *Joe Fresh* women's apparel in 683 JCPenney stores across the United States. In 2013, *Joe Fresh* apparel also became available online in the United States at www.jcpenney.com. In addition, 3 standalone *Joe Fresh* stores were opened in Canada, one store was opened in the SOHO neighborhood of New York City, and one store was closed in Bridgewater, New Jersey. In October, 2013, online sales in Canada of *Joe Fresh* were launched at www.joefresh.com.

In 2013, JCPenney indicated that it plans to narrow its assortment of *Joe Fresh* products in its stores. The Company will continue to supply JCPenney with *Joe Fresh* products and will expand the brand in Canada and internationally in 2014. To that end, on February 20, 2014, the Company announced the signing of three separate partnership agreements to bring the *Joe Fresh* brand into 23 new countries across the Middle East, North Africa, Europe and South Korea, representing the brand's first expansion beyond North America. The Company will also continue its Right Hand Side renovations, which are expected to be largely complete by the end of 2014.

*Retail Square Footage*

In 2011, the Company returned to square footage growth after relative stability in 2010; it expanded its retail square footage to 51.2 million square feet from 50.7 million square feet in 2010. In 2012, the Company expanded its retail square footage to 51.5 million square feet. In 2013, the Company expanded its retail square footage by 0.8% to 51.9 million square feet.

The Company has focused on growing its *nofrills* banner over the past four years both in its well-established Ontario market as well as in Western and Atlantic Canada. In Western Canada, the Company opened nine new *nofrills* stores in 2010 and five in 2011. In Atlantic Canada, the Company opened seven *nofrills* stores in 2010 and one in 2011. During 2011, the 200th *nofrills* store was opened in Woodstock, Ontario. The Company opened three new Market stores in 2011, including the *Loblaws* store at Maple Leaf Gardens, the Company's new flagship ("Inspire") store and blueprint for the next generation grocery store.

In 2012, the Company opened four *nofrills* locations in Western Canada, six in Ontario and two in Atlantic Canada; the Company also added one *Real Canadian Superstore* location in Western Canada. One *Zehrs* store was opened in Ontario during the year as well as four *Your Independent Grocer* stores, primarily in Western Canada. In addition, two *T&T Supermarket* stores were opened in Ontario during the year.

In 2013, the Discount division added six *nofrills* stores in Western Canada, seven in Ontario, and two *Box by No Frills* stores (one in Ontario, one in Western Canada). The Discount division also added one *Real Canadian Superstore* location in Western Canada and one *Maxi* store in Québec. In the Market division, the Company added one *Fortinos* store, one Your *Independent Grocer* store, one *Zehrs Markets* store, one *SuperValu* store, and two stores based on our Inspire format: a *Provigo Le Marché* in Québec and the *Loblaw City Market* in North Vancouver. The Company also added four *Joe Fresh* stores.

As a result of the Shoppers Drug Mart acquisition, the Company's square footage grew by 17.9 million square feet, or a 34.5 percent increase. For the balance of 2014, capital spending is expected to support square footage growth of approximately 1.0 percent.

*Store Renovations*

The Company regularly updates its grocery stores in order to improve the customer shopping experience. In 2009, the Company began an intensive program of network-wide grocery store updates that it expects to conclude in 2014. Following this renovation program, it is anticipated that the Company will return to a more regular renovation cycle, with each grocery store receiving an update approximately every eight years.

In 2011, the Company continued its store renewal plan and completed approximately 120 store renovations, including 80 major renovations that enhanced customers' in-store experience across various banners and divisions.

In 2012, the Company completed approximately 180 major renovations. Approximately 50 of the renovations were dedicated to updates in select *Maxi* and *Provigo* stores to improve the in-store shopping experience. In addition, 80 of the renovations were conducted to support the strategic transition of the Right Hand Side, or general merchandise areas of the Company's grocery stores to offer an enhanced selection of merchandise in four key areas: Apparel, Beauty, Home and Kids. Five *T&T Supermarket* store renovations took place during the year.

In 2013, the Company completed approximately 180 major renovations and 20 conversions. Renovations were focused on *the Real Canadian Superstore*, *Maxi*, *Provigo*, *Loblaws*, and *valu-mart* banners. The Company performed 29 renovations as part of its Right Hand Side general merchandise reset program, and four *T&T Supermarket* store renovations took place during the year. In Québec, the Company introduced *Provigo Le Marché*, a format that borrows from the Company's Inspire stores, with one new *Provigo Le Marché* in Sherbrooke and six conversions from Loblaws. In 2013, the Company also converted a number of *Extra Foods* locations in Western Canada to *nofrills* or *Your Independent Grocer* stores.

For the balance of 2014, the Company will continue to enhance its offering in Québec with additional *Provigo Le Marché* conversions. In Ontario, the Company will continue to renovate key *Loblaws* assets to the Company's Inspire format. In addition, the Company will continue to construct, expand, remodel and relocate applicable Shoppers Drug Mart Associate-owned drug stores and will continue to pursue attractive opportunities in the marketplace to acquire drug stores and prescription files.

*Supply Chain*

In 2007, the Company implemented a significant initiative to invest in and improve its supply chain. This initiative, which was largely completed during 2011, included upgrading the physical distribution network, increasing capacity, and implementing new forecasting, replenishment, distribution and transportation capabilities that improved in-store availability and operational productivity.

In 2010, the Company completed the implementation of its transport management system ("TMS"). The new warehouse management system ("WMS") was implemented in 10 distribution centres. Over 50 suppliers were converted from direct store delivery to shipping through distribution centres, reducing deliveries to stores and improving availability. In addition, the Company continued to progress with its integrated planning, forecasting and replenishment system ("IPFR") integration, and introduced new retail-ready packaging to its supply chain, leading to a faster replenishment process and an improved shopping experience for customers. With the completion of many of the supply chain implementations, the Company started to see transportation efficiencies and improvements in service levels and availability in 2011. In addition, during 2011, the Company implemented the WMS in five more distribution centres. The Company also completed six deployments of the IPFR system and continued to increase the number of products being shipped in retail-ready packaging.

In 2012, the focus was on the continued roll out of systems. The Company went live on the WMS at four distribution centres during the year. In addition, an end-state IPFR solution was enabled for the one distribution centre and one store that went live on the IT system. As a result, at the end of the year, forecasting for the first store was being determined primarily by point of sale ("POS") history, with store replenishment instructions driving distribution centre and vendor orders. The Company continued to optimize its IPFR, WMS and TMS solutions during the year.

In 2013, the Company completed the rollout of the WMS at the final three distribution centres. The Company also completed the IPFR roll out at all desks, with all warehouse replenishment now driven off of the updated system. The Company also implemented its IT systems in seven distribution centres ending the year with eight completed.

As a result of the acquisition of Shoppers Drug Mart, the Company has 6 additional distribution centres. In addition, the Company will continue to be focused on completing the IT systems implementation at its remaining distribution centres (excluding Shoppers Drug Mart distribution centres).

*Labour Relations*

Since 2011, 206 collective agreements were successfully negotiated by the Company and its franchisees as applicable. Significant labour negotiations took place across the Company in 2012 as 69 collective agreements expired and 49 collective agreements were successfully negotiated, which included agreements that expired in prior years.

In 2013, 64 collective agreements expired and 80 collective agreements were successfully negotiated including three long-term settlements of five to six years in the Western provinces - Manitoba, Saskatchewan, and Alberta. Although the Company had to invest in a short-term three-day strike in Alberta, the Company was successful in maintaining short-term stability and ongoing flexibility, laying the foundation for resetting its labour economics model and gaining flexibility to support its capital expansion plan in Western Canada.

In 2011 and 2012, to drive labour productivity, the Company successfully transitioned certain of its Ontario Market stores to more cost effective and efficient collective agreements ratified in 2010. These transitions continued in 2013 and are expected to continue for the remainder of 2014 and beyond.

**Financial Services**

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 products, while building loyalty across the Company's businesses, particularly through growth in the Company's *President's Choice Financial* MasterCard portfolio.

The Company has focused on expanding its *President's Choice Financial* MasterCard portfolio over the past three years. In 2011, approximately one million new applications were successfully acquired. In 2012, the Company acquired 1.1 million new applications, approximately double the number of applications that were acquired in 2010. In 2013, the Company grew to 1.2 million new applications setting a new high. Since 2010, the Company has added close to 500,000 new active *President's Choice Financial* MasterCard cardholders. The Company also reinvigorated the *President's Choice Financial* brand with the media campaign: "That's just good banking".

In 2011, *The Mobile Shop*, a full service mobile kiosk, was launched in 75 of the Company's grocery stores. *The Mobile Shop* was introduced to give Loblaw customers the ability to shop a range of 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 at the end of 2013 there were over 180 locations across the grocery store network.

In 2013, the Company launched *PC* mobile post-paid plans offering Canadians affordable and convenient mobile voice and data options along with the opportunity to collect double *PC* points loyalty rewards. During 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 (versus the previous 36 months). This has impacted same store sales as carriers are now charging more for handsets in bundled plans due to the shorter contract terms.

For the balance of 2014, the Financial Services segment will continue to be focused on initiatives to drive increased customer awareness and grow the *President's Choice Financial* brand, including the launch of a newly designed bank pavilion.

**Choice Properties**

Choice Properties' principal business is owning and acquiring 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.

On July 5, 2013, Choice Properties completed its initial public offering of 40,000,000 Units at a price of $10.00 per Unit for aggregate gross proceeds of $400 million. Concurrently with the closing of the IPO, Weston, 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 IPO to indirectly acquire the initial properties from the Company. The initial properties 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.

On July 17, 2013, 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 pursuant to the exercise in full by the IPO Underwriters of the IPO Over-Allotment Option. Choice Properties used the net proceeds from the exercise of the IPO Over-Allotment Option to repay indebtedness.

On October 22, 2013, Choice Properties acquired a portfolio of nine investment properties from the Company for an aggregate purchase price of approximately $150 million, which was settled through the issuance of 9,925,671 Class B Limited Partnership units and cash. On

October 28, 2013, Choice Properties acquired a property from a third party for approximately $2 million, which was settled in cash. On December 19, 2013, Choice Properties acquired two more investment properties from the Company for an aggregate purchase price of approximately $35 million, which was settled through the issuance of 1,651,212 Class B Limited Partnership units and cash.

On February 28, 2014, Choice Properties acquired an industrial property for approximately $15.5 million in cash. On May 6, 2014, Choice Properties acquired a portfolio of 20 retail properties from the Company for an aggregate purchase price of approximately $200 million, excluding transaction costs, which was settled through the issuance of 11,259,208 Class B Limited Partnership units and cash.

As a result of these acquisitions, Choice Properties' portfolio as at June 2, 2014 consisted of 456 properties comprising 444 retail properties, nine warehouse properties, one office complex, one industrial property and one parcel of land for development, totaling approximately 37.6 million square feet across Canada.

**Employment Matters**

In 2011, the Company continued to invest in colleague development through its "Best Store Leader" and "Best Category Leader" programs in its grocery stores, and launched 16 Leadership Development Centres with 240 colleagues participating. These colleagues were supported with individual assessments and development plans, which directly resulted in a number of assistant store managers and merchants being identified as ready for promotion. In addition, the first cohort of high potential colleagues completed a seven month program that seeks to develop the leadership capability of high performing and high potential Loblaw colleagues. The Company continued to develop programs supporting colleague attraction and retention, colleague development, succession planning, diversity and inclusion and health, safety and wellness.

In 2012, the Company continued its focus on leadership assessment and development. An online leadership assessment tool was pilot tested during the year and the output of this online assessment was the creation of individual development plans for the Company's middle management leadership group. The focus on identifying and developing high potential colleagues continued and the second cohort graduated from the High Potential Leadership Program.

In 2012, the Company redefined and communicated its corporate values. Colleague-centric focus groups held across Canada generated four values: CUSTOMERS matter most; We RESPECT each other; Getting BETTER every day; and care for COMMUNITY and environment. The focus during the latter part of 2012 was on recognizing and celebrating colleagues living these values day to day.

In 2012, the Corporation also conducted a comprehensive review and redesign of its Code of Conduct ("Code") to ensure it matched the industry's best practices. The Code addresses several compliance issues including compliance with laws, rules and regulations, confidentiality and fair dealing with the Company's shareholders, customers, suppliers and competitors. All directors, officers and employees of the Corporation are required to comply with the Code and must acknowledge their commitment to abide by the Code on a periodic basis. The Code is available on the Company's website at www.loblaw.ca.

In 2013, the Company successfully completed a national roll out of its Values Heroes Recognition Program to allow colleagues to instantly recognize peers for taking positive actions that reflect the Company's shared values. The Company also embarked on initiatives to focus on standardizing processes, enhancing centralized services, improving agility and clarifying roles, driving the future state operating model and reducing costs. The Company continued its commitment to recruit and develop talent through its Grad Program and completed the third cohort of the High Potential Leadership Program.

Over the past three years, the Company's efforts have been recognized in a number of ways, including by being designated as one of Canada's Top 100 Employers, one of Canada's Best Diversity Employers and one of Canada's Most Admired Corporate Cultures.

For the balance of 2014, the Company will continue to build a responsive and performance-oriented culture that ensures colleagues are focused on customers and that they understand and reflect the Company's values. Initiatives to support colleague retention, succession planning, recognition and development will continue in order to drive colleague engagement and achieve the Company's goal to "Be a Great Place to Work". In addition, the Company will continue to review the cultural similarities and differences between Shoppers Drug Mart and Loblaw and will focus on redefining leadership behaviours as a result of this review.

## Information Technology

*IT Systems*

The Company is currently conducting a major upgrade of its IT infrastructure. This is one of the largest technology infrastructure programs ever implemented in the Canadian retail marketplace and it is fundamental to the Company's long-term growth strategies. It is anticipated that the implementation of the IT systems will drive ordering and inventory efficiencies by initiating store orders to distribution centres and vendors based on POS data and facilitating perpetual inventory in most product categories. As the integrated system is connected to the store network, it is expected to provide the business with additional insight, which will drive operational rigour and ultimately improve efficiency and the customer experience.

In 2011, the Company successfully transitioned all merchandising category product listings on to the updated IT systems with no significant impact on its customers. In 2012, the first distribution centre and first store went live on end-to-end systems, from ordering products to taking payment from customers. The complex transition was successfully executed with no significant impact on customers. Additional master data was also introduced to the system during the year and cleansing continued.

In 2013, the Company continued to roll out the IT systems to a portion of its distribution centres and store network. During 2013, 74 stores were transitioned to the updated IT systems, bringing the total to 75. An additional seven distribution centres were converted to the updated IT systems, bringing the total to 8. The Company also completed the commissioning of a new data centre. With the store network roll out, cleansing master data remains a significant focus and progress has been made to integrate this into an everyday task.

The Company is focused on optimizing data, systems and processes to continue to build a stable foundation for the roll-out and now expects the IT systems to be implemented in all of its distribution centres (excluding the distribution centres supporting Shoppers Drug Mart stores) and in all of the Company's corporate grocery stores by the end of 2014.

*Store Time and Attendance System and National Point of Sale System*

In 2011, the Company implemented a new Store Time and Attendance System ("STAS") in approximately 150 stores and by the end of 2012, all corporate stores were live on the system. In 2013, 296 franchise stores, including *nofrills*, franchised *Provigo*, and *valu-mart,* were updated to STAS. At the end of 2013, a total of 941 stores were on the STAS.

For the balance of 2014, the Company plans to complete the roll out STAS to most of the remaining stores, excluding Associate-owned drug stores.

The Company began to implement its National Point of Sale system during 2010, to provide a standardized infrastructure and application landscape as the foundation for the roll out of the IT systems and other new capabilities across the enterprise. Over 240 stores were converted to the National Point of Sale system during 2011 and the roll out was completed during 2012.

## Financial Performance

Information on the Company's financial performance can be found in the consolidated financial statements and MD&A. This information is incorporated by reference and is available at www.sedar.com or at www.loblaw.ca.

## 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;

- $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, both of 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 August 20, 2013.

## DESCRIPTION OF THE BUSINESS

### Operations

Loblaw Companies Limited is Canada's largest grocery, pharmacy and beauty retailer. The Company is also a leading provider of apparel, general merchandise and financial products and services. The Company has three reportable operating segments. The Retail segment consists primarily of retail food and Shoppers Drug Mart Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, gas bars, apparel and other general merchandise. The Financial Services segment includes credit card services, insurance services, personal banking services provided by a major Canadian chartered bank, deposit taking services, and telecommunication services. The Choice Properties segment owns and leases income-producing commercial properties.

*Retail*

The Retail segment consists primarily of retail food, including both Market and Discount banner grocery stores. The Company's Market banners offer a broad assortment across a variety of food and complementary categories, with a focus on service and value. The Company's Discount banners are focused on delivering a fresh-led food shop at the lowest price coupled with service when and where it matters most. This format offers a straightforward food shop, while the Superstore business offers a one stop shop with a broad product selection of fresh foods, health, apparel, and home needs.

Corporate owned grocery store banners include *Atlantic Superstore, Box by No Frills, Dominion*[2] (in Newfoundland and Labrador), *Extra Foods, Loblaws, Maxi, Maxi & Cie, Provigo, Provigo Le Marché, Real Canadian Superstore, T&T Supermarket* and *Zehrs Markets* and wholesale outlets operating as *Cash & Carry, Presto* and *The Real Canadian Wholesale Club.* The Company's franchised and affiliated grocery stores operate under trade names including *Atlantic SaveEasy, Extra Foods, Fortinos, Loblaw City Market, nofrills, Provigo, SuperValu, valu-mart,* and *Your Independent Grocer.*

The Retail segment also includes Shoppers Drug Mart Associate-owned drug stores operating under the name *Shoppers Drug Mart (Pharmaprix* in Québec). Shoppers Drug Mart licenses or owns medical clinic pharmacies operating under the name *Shoppers Simply Pharmacy* (*Pharmaprix Simplement Santé* in Québec) and luxury beauty destinations operating as *Murale*, and owns and operates *Shoppers Home Health Care* stores. Shoppers Drug Mart also offers the *Shoppers Optimum/Pharmaprix Optimum* program, one of the largest retail loyalty card programs in Canada. Shoppers Drug Mart's expansive retail network is generally situated in prime retail locations, with stores designed to maximize customer service and convenience, and to facilitate customer traffic flow and feature well-lit and well-signed interiors.

The Company's retail store network is supported by 27 warehouse facilities located across Canada (six of which were acquired as part of the Shoppers Drug Mart acquisition) as well as third party warehouses and temporary storage facilities when required.

*Financial Services*

President's Choice Bank ("PC Bank") makes available 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. The

[2] Trademark used under license.

Company also offers home, auto, travel, life and pet insurance through its insurance entities and offers gift card and mobile phone services, including *The Mobile Shop* and *PC* Mobile, and administers the *PC Plus* loyalty program.

*Choice Properties*

Choice Properties' principal business is owning and acquiring 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 of June 2, 2014, the Company held an effective ownership in Choice Properties of 82.6% through ownership of 21,500,000 Units and 295,333,962 Class B Limited Partnership units, which are economically equivalent to and exchangeable for Units. Loblaw is the single largest tenant. As of June 2, 2014, Loblaw represented 88.2% of total gross leasable area and 89.5% of annual base rent.

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

**Geographic and Banner Summary**

*Retail*

As at March 28, 2014, the Company, through its subsidiaries, franchisees and Associates operated the following stores and warehouses across Canada and the United States[3]:

| | Corporate Stores | Franchised Stores | Associate-Owned Drug Stores | Warehouses |
|---|---|---|---|---|
| Newfoundland and Labrador | 12 | 8 | 28 | 1 |
| Prince Edward Island | 4 | 5 | 5 | 0 |
| Nova Scotia | 33 | 18 | 37 | 1 |
| New Brunswick | 22 | 23 | 40 | 3 |
| Québec | 183 | 62 | 163 | 3 |
| Ontario | 241 | 303 | 598 | 8 |
| Manitoba | 25 | 1 | 40 | 1 |
| Saskatchewan | 28 | 7 | 32 | 0 |
| Alberta | 65 | 38 | 147 | 3 |
| British Columbia | 70 | 40 | 151 | 7 |
| Northwest Territories | 0 | 2 | 1 | 0 |
| Yukon | 1 | 1 | 2 | 0 |
| USA | 7 | 0 | 0 | 0 |
| **Total** | 691 | 508 | 1244 | 27 |

[3] In addition, the Company services affiliated independent grocery stores and independent accounts.

As at March 28, 2014, the Company, through its subsidiaries, franchisees and Associates operated the following stores [4]:

| | Corporate Stores | Franchised Stores | Associate-Owned Drug Stores |
|---|---|---|---|
| **Market** | | | |
| Atlantic SaveEasy | 0 | 43 | 0 |
| Fortinos | 0 | 22 | 0 |
| Loblaws | 69 | 0 | 0 |
| Provigo | 13 | 62 | 0 |
| Provigo Le Marché | 7 | 0 | 0 |
| SuperValu | 1 | 10 | 0 |
| T&T Supermarket Inc. | 22 | 0 | 0 |
| Valu-mart | 0 | 59 | 0 |
| Your Independent Grocer | 0 | 64 | 0 |
| Loblaw City Market | 0 | 1 | 0 |
| Zehrs | 44 | 0 | 0 |
| Atlantic Superstore | 50 | 0 | 0 |
| Dominion[5] (in Newfoundland and Labrador) | 11 | 0 | 0 |
| Other | 0 | 2 | 0 |
| **Discount** | | | |
| Extra Foods | 40 | 16 | 0 |
| Maxi | 89 | 0 | 0 |
| Maxi & Cie | 23 | 0 | 0 |
| nofrills | 0 | 227 | 0 |
| Box by nofrills | 0 | 2 | 0 |
| Real Canadian Superstore | 113 | 0 | 0 |
| **Shoppers Drug Mart** | | | |
| Shoppers Drug Mart/Pharmaprix | 15 | 0 | 1242 |
| Shoppers Home Health Care | 62 | 0 | 0 |
| Shoppers Simply Pharmacy/Pharmaprix Simplement Santé | 50 | 0 | 2 |
| Murale | 6 | 0 | 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** | 691 | 508 | 1244 |

The average store size as at the end of the first quarter of 2014 for corporate stores and franchised stores was 66,100 and 29,500 square feet, respectively. Over the last three years, the average store size for corporate grocery stores has increased by approximately 1.7%, while the average store size for franchised grocery stores has increased by approximately 0.3%. At the end of the first quarter of 2014, the average store size of Shoppers Drug Mart Associate-owned drug stores was 10,600 square feet, representing an increase of 4.4% over the last three years.

[4] In addition, the Company services affiliated independent grocery stores and independent accounts.
[5] Trademark used under license.

The Company's preferred strategy, including through Choice Properties, is to purchase land for future store locations. At the end of the first quarter of 2014, the Company owned 73% of the real estate on which its corporate grocery stores are located, 45% of the real estate on which franchised grocery stores are located, as well as various properties under development or held for future development. The total square footage of the owned corporate and franchised stores is approximately 26.8 million square feet and 6.8 million square feet, respectively. All Shoppers Drug Mart Associate-owned drug stores are leased, with the exception of 26 stores which are located on properties the Company owns. Associate-owned drug stores are leased from a diverse group of lessors, and most are leased on a long-term basis with staggered lease maturity dates.

*Financial Services*

The Company operates 186 *President's Choice Financial* services kiosks in retail grocery stores across the country. In addition, the Company operates prepaid cellular end caps in over 450 of its grocery stores across the country. *The Mobile Shop* full service locations, operated by third party providers, are located in over 180 of the Company's grocery stores across the country.

**Competitive Environment**

*Retail*

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

The Company's competitors include 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, drugstore and general merchandise. Others remain focused on supermarket-type merchandise. The Company is subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery market. The Company's inability to effectively predict market activity or compete effectively with its current or future competitors could result in, among other things, reduced market share and lower pricing in response to its competitors' pricing activities. Failure by the Company to sustain its competitive position could negatively affect the financial performance of the Company.

*Financial Services*

The Canadian bank card market is highly regulated and competitive. Over the past five years, two significant retail issuers sold their portfolios to major Canadian banks, a major Canadian telecommunications provider has applied to the federal government for a banking license and a major Canadian bank has announced partnerships with two large Canadian retailers. As the market competition increases, customer expectations are being redefined, which include good value, exceptional service and programs that reward them for their loyalty. PC Bank, as the issuer of *President's Choice Financial* MasterCard, competes in this market. The unique value proposition of free groceries enables *President's Choice Financial* MasterCard to compete with the other players in the market. The Company's inability to meet these customer expectations, predict market activity or compete effectively could adversely affect the Company's ability to achieve its objectives.

The Company's personal banking services and GIC program compete with comparable products offered by banks and other financial institutions and are issued on terms and conditions that are competitive with such other products.

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.

*Choice Properties*

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 a market leading anchor as its principal tenant, well-located sites and a strong balance sheet.

**Customers**

The Company's customers comprise a wide cross-section of consumers across Canada. The Company is not dependent upon a small number of customers or any single customer.

**Control Brand Products**

The Company has developed a successful line of control brand products and services that are sold or made available in its corporate, franchised and affiliated independent grocery stores and Shoppers Drug Mart Associate-owned drug stores and are available on a limited basis to certain independent 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 markets control brand products in the food, health and beauty, apparel and general merchandise categories under brand names, including: *President's Choice, PC, no name, Joe Fresh, PC Organics, Blue Menu, PC* black label, *Club Pack, Free From, The Decadent, PC G.R.E.E.N, PC Nutrition First, Exact, T&T, Teddy's Choice, Tera Gear, Jump Kids World,* and *Everyday Essentials*. With the acquisition of Shoppers Drug Mart, the Company now offers consumers additional control brand products marketed under various trademarks, including *Life Brand*, which is Shoppers Drug Mart's most recognized control brand. There were more than 8,000 different items and sizes of control brand and exclusive brand products offered by Shoppers Drug Mart in 2013.

The Company's goal is to provide iconic leading brands to its customers, to drive customer loyalty through its control brand products and differentiate through innovation. *President's Choice* and *no name* are Canada's #1 and #2 consumer brands.[6] Aligned with these goals, the Company offers close to 500 *Blue Menu* products, more than 280 *PC* black label products and over 360 products under the *PC Organics* label.

A selection of control brand general merchandise items has been developed as part of the Company's general merchandise offering. These products cater to all areas of the home including kitchen, home décor, bath, bed and seasonal categories. In recent years, the Company has reset the general merchandise assortment in its grocery stores in favour of offering an enhanced selection of merchandise in four key areas: Apparel, Beauty, Home and Kids. This strategy was implemented in order to better align the general merchandise selection with the Company's food offering and the needs of its primary customers.

**Marketing**

The Company sells a wide variety of national brands and the marketing of these brands is accomplished primarily through promotion in-flyer, or through promotional activity in-store in collaboration with the national brands suppliers. The *President's Choice* and the *Joe Fresh* brands receive significant advertising presence on television, in print, in major magazine publications and on the internet. The Company has also participated in Toronto Fashion Week to promote its *Joe Fresh* apparel brand.

The Company's control brand offering continues to be supported by marketing campaigns featuring the best that the *President's Choice* brand has to offer, including innovative new products to meet the changing needs of consumers and signature products that have been delighting Canadians for years, all providing the exceptional quality and value our customers expect from the *President's Choice* brand. The Company has begun the journey from traditional mass marketing to becoming a digital marketing organization. The website: www.pc.ca had over 3 million visitors in 2013, consuming over 14 million pages of content and the launch of the *PC Plus* program has created a digital marketing infrastructure that will enable the Company to directly engage millions of Canadians.

Over the last few years, the Company has placed a greater emphasis on public relations campaigns and event marketing. In 2011 and 2012, the Food Network Canada reality television series "Recipe to Riches" featured the *President's Choice* brand. As part of the show, at-home chefs presented innovative recipes to a panel of judges for the chance to have their recipes developed into products sold under the

[6] Source: Nielsen MarketTrack, Total Tracked Sales (Excl. Competitors' Control Brands), 52-week period ending December 14, 2013, for the National All Channels (Excl. Nfld) market, Copyright © 2013, The Nielsen Company.

*President's Choice* brand. In 2013, the Company launched a number of advertising campaigns focusing on *President's Choice* innovations like *Free From* meats, *PC Organics* baby food and *Nutrition First* pet food and featured Galen Weston, the Company's Executive Chairman, as spokesperson. The *PC* black label campaign inspired Canadians to explore their inner foodies and try this new gourmet line of foods.

In 2013, the Company continued the roll-out of an integrated marketing plan with a greater focus on digital, customer-specific marketing initiatives. In May, the Company launched a new loyalty marketing platform, *PC Plus*, in a pilot in 44 *Loblaws* stores in Ontario. Following the successful pilot, the program was expanded across the Company's entire conventional network as well as the *Real Canadian Superstore* network in November 2013.

The Company also revamped its digital marketing infrastructure to enable a nimbler, more integrated digital go-to-market approach. The www.pc.ca and www.loblaws.ca websites were re-launched on the new platform with other banners to follow this migration in 2014. The Company also uses social media channels such as Facebook, Twitter, and Pinterest to reach more Canadians quickly and more cost effectively than ever before.

In 2014, expanding the *PC Plus* program will continue to be a primary focus allowing the Company to expand its reach from mass marketer to customer-specific marketer under a new, modern and digital marketing platform. The Company will accelerate the opportunity provided by the *Shoppers Optimum/Pharmaprix Optimum* program to further enhance the Company's understanding of customer needs and design promotions that can be targeted to specific customers and customer segments, thereby consolidating customer purchases in the Shoppers Drug Mart Associate-owned drug stores and driving increased sales and profitability. In addition, the Company will continue to feature control brand and exclusive brand products extensively in Shoppers Drug Mart's regular promotional flyer in order to continue to differentiate the Shoppers Drug Mart Associate-owned drug stores from the competition and to enhance the Company's value proposition with consumers.

**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 under the sections Retail and Financial Services sections of 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.

**Information Technology**

The Company uses various systems to support the major functional aspects of its business. The IT team provides support, maintenance and development services for these systems and manages the strategic direction of the Company's IT functions. The Company is currently undergoing a major upgrade of its IT systems, as described elsewhere in this AIF.

The Company operates POS technology that connects to a suite of in-store management tools for functions such as labour management, product ordering and inventory management. Warehouses are equipped with inventory management systems that facilitate picking and shipping. In addition, support tools are maintained for major functional areas of the Company's business such as merchandising, finance, human resources and marketing.

The Company maintains a secure, chain-wide network that transmits data between its stores, distribution centres and corporate offices and carries debit and credit transactional information from stores to the Company's provider of credit card clearing services.

**Supply Chain**

The Company's Retail 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, 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 Retail supply chain and distribution network is comprised of a total of 27 warehouses and distribution centres. 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 ships. The Company is not dependent on any one third party transport provider.

**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.

**Foreign Operations**

JFS Inc., a wholly owned subsidiary of the Company, operates the Company's apparel business in the United States. JFI Global Purchasing Limited, a wholly owned subsidiary of the Company, operates the Company's apparel business internationally. The Company is not dependent on these operations.

**Colleagues**

As of June 2, 2014, the Company, through its subsidiaries, franchisees and Associates employed approximately 193,000 full-time and part-time employees. A majority of the Company's grocery store level and related distribution centre colleagues are unionized. Currently, the unionized workforce employed by the Company and certain of its franchisees is covered by a total of 358 collective agreements with 17 unions.

**Lending**

The PC Bank Board of Directors has approved 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. In order 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.

**Corporate Social Responsibility**

The Company is an active, contributing citizen of 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.

By making these positive contributions, it will become the preferred choice of its customers and the preferred partner of its suppliers. This in turn drives strong business performance and gives the Company the means to make the right contributions as a responsible corporate citizen.

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 annually in a public document. The seventh CSR Report was released on May 1, 2014 and can be found at www.loblaw.ca.

## RISKS

### Enterprise Risks and Risk Management

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

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

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

Risk identification and assessments are important elements of the Company's ERM framework. An annual ERM assessment is completed to assist in the update and identification of internal and external risks, which 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 quarterly 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.

**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 |
| 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 |
| 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 |
| Merchandising | Ethical Business Conduct |
| Vendor Management and Third Party Service Providers | |

**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 successful implementation of the acquisition will depend on a number of factors including significant effort on the part of management of the Company. Failure to realize the anticipated strategic benefits or operational, competitive and cost synergies could adversely affect the reputation, operations and financial performance of the Company.

**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 implement appropriate processes to support the new IT systems could result in inefficiencies and duplication in processes, which could adversely affect the reputation, operations and 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 and financial performance of the Company.

Federal and provincial laws and regulations that establish the public drug plans typically regulate prescription drug coverage, patient eligibility, pharmacy reimbursement, drug product eligibility, drug pricing and may also regulate manufacturer allowance funding that may be 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 and financial performance of the Company.

**Inventory Management and Valuation** The Company values merchandise inventories at the lower of cost and net realizable value and uses the retail method to measure the cost of the majority of its grocery store inventories. With the upgrade of its IT infrastructure, the Company expects to complete the conversion of its corporate grocery stores to a perpetual inventory management system in 2014. The implementation of a perpetual inventory system, combined with visibility to integrated costing information provided by the new IT systems, will enable the Company to estimate the cost of inventory using a system-generated weighted average cost. Any changes as a result of this implementation could be material and could negatively affect the carrying amount of the Company's inventory, which in turn could adversely affect the financial performance of the Company.

**Change Management** Significant initiatives within the Company, including the execution of the IT infrastructure plan, and implementing the acquisition of Shoppers Drug Mart, are underway. Ineffective change management could result in disruptions to the operations of the business or negatively affect the ability of the Company to implement and achieve its long term strategic objectives. Failure to properly integrate several large, complex initiatives in a timely manner will adversely impact the operations of the Company. If colleagues are not able to develop and perform new roles, processes and disciplines, the Company may not achieve the expected cost savings and other benefits of its initiatives. Failure to properly execute the various processes will increase the risk of customer dissatisfaction, which in turn could adversely affect the reputation, operations and financial performance of the Company.

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

**Availability, Access and Security of Information Technology** The Company is reliant on the continuous and uninterrupted operations of its IT systems. Point of sale availability, 24/7 user access and security of all IT systems, including distribution of prescription drugs and reimbursement by third-party payors, are critical elements to the operations of the Company. Any IT failure pertaining to availability, access or system security could result in disruption for the customer and could adversely affect the reputation, operations and 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 and financial performance of the Company.

**Labour Relations** The Company's workforce is comprised of both unionized and non-union colleagues. With respect to those colleagues that are covered by collective agreements, there can be no assurance as to the outcome of any negotiations to renew such agreements on satisfactory terms. Failure to renegotiate collective agreements could result in strikes, work stoppages or interruptions, and if any of these events were to occur, they could adversely affect the reputation, operations and financial performance of the Company. If non-unionized colleagues become subject to collective agreements, the terms of any new 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, drugstore and general merchandise. Others remain focused on supermarket-type merchandise. The Company is subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery market. The Company's inability to effectively predict market activity or compete effectively with its current or future competitors could result in, among other things, reduced market share and lower pricing in response to its competitors' pricing activities. Failure by the Company to sustain its competitive position could adversely affect the financial performance of the Company.

**Economic Environment** Economic factors that impact consumer spending patterns could deteriorate or remain unpredictable due to global, national or regional economic volatility. These factors could negatively affect the Company's revenue and margins. Inflationary trends are unpredictable and changes in the rate of inflation or deflation will affect consumer prices, which in turn could 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 in a timely manner could subject the Company to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could adversely affect the reputation, operations and financial performance of the Company.

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

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

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

**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.

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

**Vendor Management and Third Party Service Providers** The Company relies on vendors, including offshore vendors in both mature and developing markets, to provide the Company with goods and services. Offshore sourcing increases certain risks to the Company, including risks associated with food safety and general merchandise product defects, non-compliance with ethical business practices and inadequate supply of products. 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 and financial performance of the Company.

*President's Choice Financial* banking services are provided by a major Canadian chartered bank. PC Bank uses third party service providers to process credit card transactions, operate call centres and operationalize certain risk management strategies for the *President's Choice Financial* MasterCard. 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 and 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 and 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 and financial performance of the Company.

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

**Privacy and Information Security** The Company's IT systems contain personal information of customers, cardholders and employees. The Company's IT systems could be compromised by unauthorized parties attempting to extract business sensitive or confidential 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 or confidential 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 or regulations could adversely affect the reputation, operations and financial performance of the Company.

**Franchisee Independence and Relationships** A substantial portion of the Company's revenues and earnings comes from amounts paid by franchisees 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 and 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, any 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 and 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 and 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 and financial performance of the Company.

**Trademark and Brand Protection** A decrease in value of the Company's trademarks, banners or control brands as a result of adverse events, including third party infringement, changes to the branding strategies or otherwise, could 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 28% 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 53,000 employees as members. In 2013, the Company contributed $54 million to CCWIPP. The CCWIPP has historically been underfunded as the actuarial accrued benefit obligations have exceeded the value of the assets held in trust. Any benefit reductions would negatively affect the retirement benefits of the Company's employees, which in turn could negatively affect their morale and productivity and, in turn, could 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 financial performance of the Company.

**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 summary of the Company's financial risks which are discussed in detail below:

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

**Discussion of Financial Risks**

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

If the Company's, including PC Bank or Choice Properties, financial performance and condition deteriorate or downgrades in the Company's or Choice Properties' current credit ratings occur, the Company's ability to obtain funding from external sources could be restricted, which could adversely affect the financial performance of the Company.

**Interest Rate Risk** The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and financial instruments, net of cash and cash equivalents, short term investments and security deposits. An increase in interest rates could adversely affect the financial performance of the Company.

**Credit Risk** The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company. Exposure to credit risk relates to derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, franchise loans receivable, accounts receivable from franchisees and Associates and other receivables from vendors, associated stores and independent accounts, receivables from prescription sales billed to governments or third-party drug plans, and pension assets held in the Company's defined benefit plans. Events of default by counterparties could adversely affect the financial performance of the Company.

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

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

**Commodity Price Risk** The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect link of commodities to consumer products and prices. Rising commodity prices 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 Units that are held by unitholders other than the Company. These Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holder. The liability is recorded at fair value at each reporting period based on the market price of Units. The change in the fair value of the liability negatively impacts net earnings when the Unit price increases and therefore could adversely affect the financial performance of the Company.

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.

## CAPITAL STRUCTURE AND MARKET FOR SECURITIES

### 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 June 2, 2014, there were 413,859,786 common shares issued and outstanding, an increase of 131,548,213 common shares from December 29, 2012. 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 2013, 2,131,416 options were exercised resulting in the corresponding delivery of 2,131,416 common shares. As at December 28, 2013 there were 10,995,995 options outstanding, a decrease of 1,542,933 options from December 29, 2012. As a result of the grant of 1,026,118 options to employees of Shoppers Drug Mart on the closing of the acquisition, Loblaw annual and quarterly grant of 1,579,961 options, cancellation or expiry of 906,913 options and exercise of 1,592,655 options, there were 11,102,506 options outstanding as at June 2, 2014.

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, 2013, 2014, and 2015 the Company may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares for $25.75, $25.50 and $25.00 respectively. The Company did not redeem any outstanding preferred shares on July 31, 2013. 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 June 2, 2014 there were 9,000,000 Second Preferred Shares, Series A outstanding with a face value of $225 million.

**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 January 1, 2013 to May 31, 2014 were as follows:

***Common Shares***

| **Month** | **High**<br>($ per share) | **Low**<br>($ per share) | **Average Daily Volume by Month**<br>(in shares) |
|---|---|---|---|
| January, 2013 | 42.19 | 39.71 | 338,871 |
| February, 2013 | 41.50 | 39.10 | 322,742 |
| March, 2013 | 42.85 | 40.23 | 417,338 |
| April, 2013 | 43.30 | 40.76 | 731,971 |
| May, 2013 | 50.45 | 43.65 | 983,902 |
| June, 2013 | 50.81 | 46.03 | 690,902 |
| July, 2013 | 52.06 | 46.10 | 1,567,206 |
| August, 2013 | 49.19 | 44.67 | 675,748 |
| September, 2013 | 46.98 | 44.25 | 785,021 |
| October, 2013 | 48.37 | 44.85 | 485,179 |
| November, 2013 | 48.14 | 43.06 | 990,149 |
| December, 2013 | 44.45 | 40.82 | 650,347 |
| 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 |

***Second Preferred Shares, Series A***

| **Month** | **High**<br>($ per share) | **Low**<br>($ per share) | **Average Daily Volume by Month**<br>(in shares) |
|---|---|---|---|
| January, 2013 | 27.03 | 26.34 | 1,554 |
| February, 2013 | 26.64 | 26.15 | 5,938 |
| March, 2013 | 26.50 | 26.10 | 6,074 |
| April, 2013 | 26.64 | 26.15 | 3,248 |
| May, 2013 | 26.30 | 26.15 | 6,998 |
| June, 2013 | 26.37 | 26.00 | 1,772 |
| July, 2013 | 26.54 | 25.77 | 2,442 |
| August, 2013 | 26.17 | 25.60 | 16,776 |
| September, 2013 | 26.30 | 25.90 | 3,986 |
| October, 2013 | 26.59 | 25.91 | 14,819 |
| November, 2013 | 26.28 | 25.91 | 2,801 |
| December, 2013 | 26.25 | 26.02 | 6,128 |
| January, 2014 | 26.40 | 26.00 | 5,837 |
| 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 |

**Medium Term Notes and Debt Securities**

Loblaw Companies Limited'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 the unsecured indebtedness that has not been subordinated. In 2013, the Company filed an amended short form prospectus and issued $1.6 billion in senior unsecured notes to partially fund the acquisition of Shoppers Drug Mart and repaid a $200 million medium term note at maturity. In addition, in 2013, the Company repaid USD $150 million Private Placement Notes ("USPP"), which matured on May 29, 2013 and the Company also elected to settle its remaining USPP note for $150 million in advance of its May 29, 2015 maturity date. In 2014, the Company repaid a $100 million medium term note and repaid a $350 million medium term note at maturity. During the first quarter of 2014, Shoppers Drug Mart repaid its $250 million medium term note upon maturity.

Shoppers Drug Mart's notes are not listed or quoted on a recognized exchange. These notes may be subject to certain covenants and are unsecured obligations guaranteed by the Company and rank equally with all the unsecured indebtedness that has not been subordinated. In the first quarter of 2014, Shoppers Drug Mart repaid its $250 million medium term note upon maturity. As at June 2, 2014, 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. 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 and existing cash to repay $1,600 million of the $3.5 billion term loan drawn to fund a portion of the cost to acquire Shoppers Drug Mart.

**Credit Facilities**

In the second quarter of 2013, *Eagle Credit Card Trust* filed a Short Form Base Shelf Prospectus which allows for the potential issuance of up to $1.5 billion of notes over a 25-month period. In the third quarter of 2013, *Eagle Credit Card Trust* issued $400 million of senior and subordinated term notes with a maturity date of October 17, 2018 at a weighted average interest rate of 2.91%. In the fourth quarter of 2013, *Eagle Credit Card Trust* repaid its 2.88% three-year $250 million senior and subordinated term notes that matured on December 17, 2013.

Effective on the closing of the Shoppers Drug Mart acquisition, the Company's $800 million committed credit facility ("Credit facility") was increased to $1.0 billion. As at June 2, 2014, there were no amounts drawn on this Credit Facility. In addition, effective on the closing of the Shoppers Drug Mart acquisition, the Company drew on the $3.5 billion Term Loan facility to fund a portion of the cost to acquire Shoppers Drug Mart and all amounts owing on Shoppers Drug Mart's revolving bank credit facility were repaid and the facility was cancelled.

**Trust Unit Liability**

In the third quarter of 2013, Choice Properties completed a $460 million IPO of Trust Units ("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 December 28, 2013, the fair value of the Trust Unit Liability was $688 million.

**Credit Ratings**

During the second quarter of 2013, in connection with the IPO of Choice Properties, both S&P and DBRS reaffirmed Loblaw's credit rating, outlook and trend. During the third quarter of 2013, both S&P and DBRS again reaffirmed Loblaw's credit ratings and outlook following their respective reviews of the potential acquisition of Shoppers Drug Mart. During the second quarter of 2014, subsequent to the Shoppers Drug Mart acquisition, S&P reaffirmed Loblaw's credit ratings and outlook.

As at June 2, 2014 Loblaw Companies Limited's corporate credit ratings for various classes of securities were as follows:

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

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

The rating organizations base the ratings on quantitative and qualitative considerations which are relevant for the Company. 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 at any time by the rating organization.

A definition of the categories of each rating has been obtained from the respective rating organization's website and is outlined below:

**Dominion Bond Rating Service**

*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.

***Standard & Poor's***

*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.

**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 a 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:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Dividends declared per common share | **$ 0.94** | $ 0.85 | $ 0.84 |
| Dividends declared per Second Preferred Share, Series A | **$ 1.49** | $ 1.49 | $ 1.49 |

During the first quarter of 2014, the Board declared a quarterly dividend of $0.24 per common share, paid on April 1, 2014 and a quarterly dividend of $0.37 per Second Preferred Share, Series A paid on April 30, 2014.

**Normal Course Issuer Bid**

During the second quarter of 2013, the Company filed a Normal Course Issuer Bid ("NCIB") to purchase shares on the TSX, or enter into equity derivatives to purchase, up to 14,103,672 common shares, representing approximately five percent of its 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. During the first quarter of 2013, the Company purchased 1,103,500 common shares pursuant to its previous NCIB and placed these shares into trusts for future settlement of the Company's RSU and PSU obligations. During the third quarter of 2013, the Company entered into an automatic share repurchase agreement under its Normal Course Issuer Bid that permitted the Company to buy back its shares during blackout periods in accordance with predetermined instructions. Under this program, the Company purchased for cancellation 1,500,000 shares. In the second quarter of 2014, the Company renewed its NCIB to purchase on the TSX or enter into equity derivatives to purchase up to 20,636,596 common shares, representing approximately five percent of its common shares outstanding. In accordance with the rules and by-laws of the TSX, the Company may purchase its shares from time to time at the then market price of such shares.

## DIRECTORS AND OFFICERS

The following list of directors and executive officers is current to June 2, 2014.

### Directors

| Name, Province and Country of Residence | Principal Occupation | Director Since |
|---|---|---|
| Galen G. Weston[1*]<br>Ontario, Canada | Executive Chairman of Loblaw Companies Limited | 2006 |
| Stephen E. Bachand[3]<br>Florida, United States | Corporate Director | 2009 |
| Paul M. Beeston, C.M.[2]<br>Ontario, Canada | President and Chief Executive Officer, Toronto Blue Jays Baseball Team | 2005 |
| Warren Bryant[2,5]<br>Washington, United States | Corporate Director | 2013 |
| Christie J.B. Clark[2*]<br>Ontario, Canada | Corporate Director | 2011 |
| Anthony R. Graham[1,3,4]<br>Ontario, Canada | President, Selfridges Group Limited | 1999 |
| Holger Kluge[2, 4]<br>Ontario, Canada | Corporate Director | 2014 |
| John S. Lacey[1, 4*]<br>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.[3,5*]<br>Ontario, Canada | Corporate Director | 2005 |
| Thomas C. O'Neill[1,3*]<br>Ontario, Canada | Corporate Director | 2003 |
| Domenic Pilla<br>Ontario, Canada | President, Shoppers Drug Mart Corporation | 2014 |
| Beth Pritchard[5]<br>Ohio, United States | Principal and Strategic Advisor for Sunrise Beauty Studio, LLC | 2014 |
| Sarah Raiss[3]<br>Alberta, Canada | Corporate Director | 2014 |
| Vicente Trius<br>Ontario, Canada | President of Loblaw Companies Limited | 2013 |

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

**Officers**

| Name, Province and Country of Residence | Principal Occupation |
|---|---|
| Galen G. Weston<br>Ontario, Canada | Executive Chairman |
| Vicente Trius<br>Ontario, Canada | President |
| Sarah R. Davis<br>Ontario, Canada | Chief Financial Officer |
| Gordon A.M. Currie<br>Ontario, Canada | Executive Vice President,<br>Chief Legal Officer |
| Barry K. Columb<br>Ontario, Canada | Executive Vice President,<br>Financial Services |
| Jocyanne Bourdeau<br>Québec, Canada | Executive Vice President,<br>Discount Operations |
| Mark C. Butler<br>Ontario, Canada | Executive Vice President,<br>Synergies |
| Gordon Chem<br>British Columbia, Canada | Executive Vice President,<br>Extra Foods, Superstore West and Ontario |
| Grant Froese<br>Ontario, Canada | Chief Administrative Officer |
| Mary-Alice Vuicic<br>Ontario, Canada | Executive Vice President,<br>Human Resources and Labour Relations |
| Peter McLaughlin<br>Ontario, Canada | Executive Vice President,<br>Emerging Business |
| Garry Senecal<br>Ontario, Canada | Executive Vice President,<br>Market Division |

**Officers**

| Name, Province and Country of Residence | Principal Occupation |
|---|---|
| Vince Scorniaenchi<br>Ontario, Canada | Executive Vice President,<br>Fresh Food Development and Fortinos |
| Andrew Iacobucci<br>Ontario, Canada | Executive Vice President,<br>Discount Division |
| Judy McCrie<br>Ontario, Canada | Executive Vice President,<br>Executive Vice President, Speed of Change and Culture |
| Robert A. Balcom<br>Ontario, Canada | Senior Vice President and Secretary |
| Robert Chant<br>Ontario, Canada | Senior Vice President,<br>Corporate Affairs and Communications |
| Evangelia (Litsa) Popowich<br>Ontario, Canada | Senior Vice President,<br>Controller |
| Mario Grauso<br>New York, USA | Chief Operating Officer, Joe Fresh |

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; Ms. Evangelia (Litsa) Popowich, who was Vice President, Risk Management at Fairmont Raffles Hotels International; Mr. Vince Scorniaenchi who was President of Medica One Ltd.; Mr. Vicente Trius who was Executive Director at Carrefour Group, and prior to that held senior management positions with Wal-Mart including President and CEO of Wal-Mart Brazil, Executive Vice President and CEO of Wal-Mart Asia and Executive Vice President and CEO of Wal-Mart Latin America; 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 since May 1, 2011; 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; Mr. Domenic Pilla, who, immediately prior to joining Shoppers Drug Mart, had an 11-year career with McKesson Canada, where he was President from January 2007 to October 2011; and Ms. Mary-Alice Vuicic, who joined Walmart Canada in April, 2002 as Vice President, People Division prior to joining Shoppers Drug Mart in July, 2007 as Chief Administrative Officer and Executive Vice President, Human Resources.

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 the Companies' Creditors Arrangement Act (CCAA) in June 1999. The Loewen Group Inc. emerged from Chapter 11 in January 2003 and CCAA proceedings in November 2006.

In March of 2006 Mr. Lacey joined the board of directors of Stelco Inc. 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.

## 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 Shopper 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.

## 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.

## MATERIAL CONTRACTS

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

### 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 2013 were $15 million. Fees paid under this agreement are reviewed each year by the Audit Committee.

### 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 closing date. The Company utilized the proceeds of the Term Facility to partially finance the acquisition of Shoppers Drug Mart.

Under the Term 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 Term Facility agreement (earnings before interest, income taxes, depreciation and amortization and other modifications described in 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 currently 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.

## TRANSFER AGENTS AND REGISTRARS

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

## EXPERTS

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

## 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. 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. Clark is a Fellow Chartered Accountant and a Fellow Chartered Professional Accountant, and the former Chief Executive Officer and senior partner of PricewaterhouseCoopers LLP. 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. 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. 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).

## 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 2013 and 2012, respectively:

| ($000's) | | 2013 Actual | | 2012 Actual |
|---|---|---|---|---|
| Audit fees(1) | $ | **3,069** | $ | 2,563 |
| Audit-related fees(2) | | **3,999** | | 1,660 |
| All other fees(3) | | **43** | | 39 |
| Total Fees(1) | $ | **7,111** | $ | 4,262 |

(1) Audit fees include fees for services related to the audit of the Corporation's consolidated financial statements and the audit of Choice Properties (beginning in 2013) and President's Choice Bank (each a subsidiary of the Corporation).

(2) Audit-related fees include fees for assurance and related services including the review of quarterly reports to shareholders, audit of pension plans, comfort letters, the interpretation of accounting and financial reporting standards and professional services associated with audit procedures performed relating to the Corporation's IT system conversion. 2013 includes fees related to the Choice Properties initial public offering and debt prospectuses.

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

The Audit Committee charter provides that the Audit Committee shall pre-approve the retaining of the auditor for any non-audit service. The Audit Committee may delegate to one or more members the authority to pre-approve the retaining of the Auditor for any non-audit service to the extent permitted by law.

## 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 held on May 1, 2014. 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 one or more members the authority to pre-approve retaining the Auditor for any non-audit service to the extent permitted by applicable law.

(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.

(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 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.