Loblaw
COMPANIES LIMITED

# 2009

# ANNUAL INFORMATION FORM

**March 12, 2010**

**LOBLAW COMPANIES LIMITED**

**2009 ANNUAL INFORMATION FORM**

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## FORWARD-LOOKING STATEMENTS

This Annual Information Form for Loblaw Companies Limited ("AIF") contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Words such as "anticipate", "expect", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events.

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

- the possibility that the Company's plans and objectives will not be achieved;
- changes in economic conditions including the rate of inflation or deflation;
- changes in consumer spending and preferences; heightened competition, whether from new competitors or current competitors;
- changes in the Company's or its competitors' pricing strategies;
- failure of the Company's franchised stores to perform as expected;
- risks associated with the terms and conditions of financing programs offered to the Company's franchisees;
- failure of the Company to realize the anticipated benefits of business acquisitions or divestitures;
- failure to realize sales growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including investments in the Company's information technology systems, supply chain investments and other cost reduction initiatives, or unanticipated results from these initiatives;
- increased costs relating to utilities, including electricity and fuel;
- the inability of the Company's information technology infrastructure to support the requirements of the Company's business;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure to execute successfully and in a timely manner the Company's introduction of innovative and reformulated products or new and renovated stores;
- the inability of the Company's supply chain to service the needs of the Company's stores;
- deterioration in the Company's relationship with its employees, particularly through periods of change in the Company's business;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- changes to the regulatory environment in which the Company operates;
- the adoption of new accounting standards and changes in the Company's use of accounting estimates including in relation to inventory valuation;
- fluctuations in the Company's earnings due to changes in the value of stock based compensation and equity forward contracts relating to its Common Shares;
- changes in the Company's tax liabilities resulting from changes in tax laws or future assessments;
- detrimental reliance on the performance of third-party service providers;
- public health events;
- changes in interest and currency exchange rates;
- the inability of the Company or its franchisees to obtain external financing;
- the inability of the Company to collect on its credit card receivables;

- any requirement of the Company to make contributions to its registered funded defined benefit pension plans in excess of those currently contemplated;
- the inability of the Company to attract and retain key executives; and
- supply and quality control issues with vendors.

These and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risks and Risk Management section of the Management's Discussion and Analysis ("MD&A") included in the Company's 2009 Annual Report. These forward looking statements contained in this AIF reflect management's current assumptions regarding these risks and uncertainties and their respective impact on the Company.

Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this AIF. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

The information in this AIF is current to March 12, 2010, unless otherwise noted. All amounts are in Canadian dollars.

## 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 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 operations is given below. In each case, the Company owns 100% of the voting securities either directly or indirectly. Throughout this AIF, Loblaw Companies Limited and its subsidiaries are collectively referred to as the "Company".

| Subsidiary | Jurisdiction of Incorporation |
|---|---|
| Atlantic Wholesalers Ltd. | New Brunswick |
| Fortinos Supermarket Ltd. | Ontario |
| Glenhuron Bank Limited | Barbados |
| Loblaw Alberta Inc. | Alberta |
| Loblaw Brands Limited | Canada |
| Loblaw Financial Holdings Inc. | Ontario |
| Loblaw Properties Limited | Ontario |
| Loblaw Properties West Inc. | Canada |
| Loblaws Inc. | Ontario |
| Loblaws Supermarkets Limited | Ontario |
| National Grocers Co. Ltd. | Ontario |
| PGV Acquisition Inc. | Quebec |
| President's Choice Bank | Canada |
| Provigo Distribution Inc. | Quebec |
| Provigo Properties Limited | Canada |
| Provigo Quebec Inc. | Quebec |
| T&T Supermarket Inc. | British Columbia |
| Westfair Foods Ltd. | Ontario |
| Zehrmart Inc. | Ontario |

## GENERAL DEVELOPMENT OF THE BUSINESS

The past three years were years of evolution as Loblaw continued to transform into a company that is truly competitive over the long term.

### Multi-Year Turnaround Plan

The Company is currently executing a five year turnaround plan and is in the fourth year of its plan.

Project Simplify, which was executed during 2007, was undertaken to simplify the organization by more clearly defining accountabilities, eliminating duplication and establishing consistent, simple and efficient processes. Regional food merchandising and replenishment functions were centralized to improve the Company's buying scale and create consistent and more effective category management processes. Store operations functions were aligned across all regions to enhance the customer experience. Support functions, such as Marketing, Finance, and Human Resources, were redesigned for effectiveness and efficiency. The Company is continuing to build tools, processes and capabilities to maximize the benefits of Project Simplify, while also reducing complexity, focusing on stability and improving execution at stores, distribution centres and store support centres.

The Company embarked on an initiative to fix the basics of its business, a critical part of its strategy to be known once again as one of the world's best retailers. A major component of this strategy is to have a world-class supply chain, ensure shelf availability, reduce shrink and improve store productivity. The Company also implemented a strategy to lower retail prices to deliver excellent value to customers and to ensure they recognize the benefit of lower prices in its stores where it matters.

In 2008 the Company continued to work on these core initiatives and was able to leverage its national scale in order to achieve cost and operating efficiencies. While still affected by complex processes and outdated Information Technology ("IT") systems, the Company was nonetheless successful in improving store performance in areas such as labour productivity and in reducing shrink, continuing its investment in pricing, renewing the food and rationalizing the general merchandise product assortments, improving price perception and ensuring that its support functions are serving the business in the most critical areas. It also began to execute its plans to improve its supply chain and IT infrastructure.

In 2009 the Company continued to make progress in its turnaround efforts by delivering value for its customers, colleagues and merchants. The Company continued to work on improving in-store fresh food quality by implementing best practices and revisiting its assortment to better serve local-market needs. Improved shop-keeping led to better in-store processes with greatly improved product availability. In 2009, significant investments were made in the Company's supply chain and IT infrastructures to modernize systems that will expand capacity and drive productivity.

In 2010 the Company's focus will be on marketing events that resonate with value-oriented consumers, improving the profitability of its control label products, improving the breadth and consistency of its fresh meat offering, further reductions to inventory and consistency of execution.

Success of the Company's turnaround initiatives is dependent on management effectively implementing the changes and realizing the intended benefits. Ineffective change management may result in disruptions to the operations of the business or affect the ability of the Company to change or implement and achieve its long term strategic objectives. In addition, the centralization of the Company may create synergies in some areas of the business but also increase the risk of losing valuable market knowledge at the regional levels and across the various banners. Any of these events could negatively impact the Company's performance. The Company may not always achieve the expected cost savings and other benefits of its initiatives.

Further information on the Company's strategies is provided in the MD&A, included in the Company's 2009 Annual Report, which is incorporated by reference.

**Acquisition of T&T Supermarket**

On September 28, 2009 it was announced that Loblaws Inc. completed the acquisition of T&T Supermarket Inc. ("T&T"). This acquisition will help the Company extend its ethnic offering to better serve Canada's largest growing customer segment and positions it for future growth in the ethnic food market.

T&T began operations in 1993 and now operates 18 stores in the provinces of British Columbia, Alberta and Ontario and four distribution centres, three in Vancouver and the other in Toronto. T&T offers a robust Asian food offering with emphasis on fresh and ready to consume meals.

**Supply Chain**

In recent years, the Company has continued its focus on supply chain improvements. In 2007 the Company launched a significant initiative to invest in and improve its supply chain. This initiative includes upgrading the physical distribution network, increasing capacity, and the implementation of new forecasting, replenishment, distribution and transportation capabilities that over time will improve in-store availability and operational productivity.

In 2008, four new distribution centres were opened, other distribution centres were reconfigured and availability and service levels consistently improved.

In 2009, three distribution centres were opened or renovated which increased warehouse capacity by approximately 800,000 square feet. Overall availability and service level improved. Warehouse cost per case improved and inventory levels decreased. Further, the Company made significant progress in the rollout of a new transportation management system and warehouse management system which will be completed in 2010 and 2011, respectively. In 2010, two new distribution centres will open and several others will be renovated.

Although these changes are anticipated to improve service levels for the Company's stores, the scale of the change and the implementation of new processes and systems could cause disruption in the flow of goods to stores, which would negatively affect sales.

**Labour and Employment Matters**

A majority of the Company's store level and distribution centre workforce is unionized. The Company's relationship with its unions has been satisfactory in the past three years and has been characterized by honest and open discussions regarding the need for change if the Company is to be competitive in the long term. Several of the Company's competitors operate in a non-union environment. These competitors may benefit from lower labour costs and more favourable operating efficiencies, making it more difficult for the Company to compete.

In the past three years, 207 collective agreements were successfully negotiated. Significant labour negotiations took place across the Company in 2009 as 59 collective agreements expired and 64 collective agreements were successfully negotiated.

In 2010, 73 collective agreements affecting approximately 35,000 colleagues will expire, including the Company's largest single agreement covering approximately 13,700 colleagues. The Company will also continue to negotiate the 66 collective agreements carried over from 2005 to 2009 inclusively.

Renegotiating collective agreements might result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. The Company is willing to accept the short term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term. Although the labour relations team attempts to mitigate work stoppages and disputes through early negotiations, where possible, or through delaying negotiations through busy periods, work stoppages or slowdowns are possible.

The Human Resources department, together with management, creates action plans designed to improve colleague engagement. In 2008, the Company's Human Resources function made significant strides in colleague development, succession planning and safety programs while also building national programs to attract and retain the colleagues necessary to meet business needs. Human Resources launched a colleague discount plan, standardized the process for implementing major business transformation and centralized recruiting. The Company also launched a "Tell It As It Is" colleague engagement survey to receive feedback from more than 100,000 colleagues twice a year.

In 2009, the Company's Human Resources function progressed towards developing programs designed to make Loblaw "A Great Place to Work." Specific focus was on attracting and retaining colleagues, colleague development and succession planning. These efforts paid off as the Company was recognized as one of Canada's Top 100 Employers, one of Greater Toronto's Top 90 Employers and one of the Financial Post's Ten Best Companies. In addition, turnover at the store level was reduced significantly.

In 2010, the Company's Human Resources function will continue to build a fast, flexible performance culture and focus on ensuring colleagues are focused on customers.

The degree to which the Company is not effective in attracting and retaining talented employees, developing its employees, managing performance and implementing appropriate succession planning processes and retention strategies could lead to a lack of requisite knowledge, skills and experience. Should the Company's initiatives in this area not be successful, the Company may not be able to execute its strategies, efficiently run its operations and its goals for financial performance may be adversely affected.

**Financial Performance**

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

**Products and Services**

The Company is Canada's largest food distributor and a leading provider of drugstore, general merchandise, and financial products and services. Traditional food offerings remain at the core of the Company's business. The Company operates three distinct store formats: Superstore, Great Food and Hard Discount. It also operates a Wholesale format.

Go-to-market strategies have been developed for each format based on customer shopping preferences, competitive considerations, and market opportunities. In 2008, programs took place in each of the three main formats. Great Food stores were enhanced by the "Back to Best" program in the Greater Toronto Area which included innovations to the Company's meat, seafood and produce offerings, as well as improve colleague engagement and service. Eleven Superstores were renovated in 2008 to optimize layout and improve shopping experience. By year end 2008, twelve *no frills* stores were open in western Canada.

In 2009 the Company applied the learnings from a series of successful 2008 pilot projects that were designed to enhance the performance of each of the Company's retail banners. In the West, the Company renovated 26 *Real Canadian Superstore* locations, built 2 new *no frills* stores and converted 5 *Extra Food* bannered stores to *no frills* stores. These conversions were a direct response to consumer demand for value in specific markets. In the East, the Company opened its first *no frills* bannered store in Shediac, New Brunswick. And in Quebec, the Company piloted a conversion of a *Loblaw* banner to *Maxi & Cie*, expanded the "Back to Best" conventional store upgrades to the Loblaw banner and piloted the *Provigo Marché en Ville* bannered store. These conversions and upgrades helped to optimize store layouts and space allocation with redesigned priority categories and more engaging visual merchandising.

The Company renovated and refreshed more than 200 stores in 2009. Some of these were completed using a model named "Operation Shudder", which involved shutting down a store on the slowest day of the week to minimize disruption and complete core renovations and remodelling. The result was an enhanced shopping experience for customers on their next visit to the store. With improved efficiency and productivity in store upgrades, the Company will continue their store upgrade program in 2010. In addition, the Company will add new square footage and plans to increase its footprint by more than one million square feet over the next two years.

The focus of the Company continues to be to simplify and optimize assortments, getting credit for value by lowering prices in a targeted manner and ensuring its general merchandise offering complements the Company's focus on food. Other products and services offered by the Company are described below. In addition, through certain of its corporate and franchise locations, the Company's offerings include gas bars, photo processing, optical products and services and medical clinics.

**Control Label Program**

The Company offers a strong and innovative control label program for both food and everyday household needs. This program helps to create customer loyalty and ensure price competitiveness. Over the past three years, the Company has continued to add products to its control label program in the food, health and beauty and apparel categories. In support of these products, in 2009 the Company distributed four issues of the *Insider's Report* that reached millions of homes across Canada. These included Healthy, Lawn & Garden, Summer and Holiday *Insider's Reports*. In addition an on-line only version of the PC Green *Insider's Report* was issued.

The Company has been a leader in the offering of health-oriented and organic control label products. The Company offers a range of certified organic products and now has over 300 of those products under the *PC Organics* label. Early in 2005 the Company introduced its *Blue Menu* line of products for health and nutrition conscious consumers and now offers over 300 such products.

In 2007, the Company expanded its *Joe Fresh Style* brand by launching children's wear, intimates and accessories. In 2008 the Company continued to add square footage of selling space for the *Joe Fresh Style* brand and expanded its distribution in Quebec and Atlantic Canada. In 2009, 10% additional retail space was added to existing stores in Ontario, Quebec and the Atlantic for adult apparel including women's sportswear, sleepwear & intimates, accessories and men's wear. The Company also introduced *Joe Fresh Style* cosmetics, sunglasses and jewellery into more than 250 selected stores. The Company also introduced an innovative line of *Joe Fresh Style* bath products in the fall of 2009, building on the success of *Joe Fresh Beauty* products. The Company plans on expanding 26 *Joe Fresh Style* departments in 2010 and on developing and introducing new products into the marketplace.

In 2008 the Company celebrated the 25th anniversary of the Holiday *Insider's Report*. In 2009, the Company launched 524 new *President's Choice* products, improved 718 others and put 1,800 *President's Choice* products with redesigned packaging into stores and celebrated the 25th anniversary of *President's Choice*. In 2010, the Company's focus will be on improving the profitability of control label products.

The Company's control label offering was supported in 2007, 2008 and 2009 by a new marketing campaign featuring *President's Choice* Signature products, select *President's Choice* products that provide exceptional quality and value for consumers and also support our Corporate Social Responsibility values. This campaign features Galen Weston, the Company's Executive Chairman, as spokesperson.

Although appropriate contractual arrangements are put in place with these suppliers, the Company has no direct influence over how the companies are managed. Negative events affecting the suppliers could in turn negatively impact the Company's operations and its financial performance. Inefficient, ineffective or incomplete supplier management strategies, policies and/or procedures may impact the Company's ability to optimize financial performance, meet customer needs and/or control costs and quality.

**Information Technology**

The Company has underinvested in its IT infrastructure in the past and its systems are in need of being upgraded. During 2007, an IT strategic plan was developed to guide the new systems environment that the Company requires. In 2008 the Company began to implement this plan, announcing key vendors. The Company also made initial investments in the systems needed to support its apparel line, build a company-wide master data file and establish overall infrastructure stability.

The Company recently completed the first year of an Enterprise Resource Planning system ("ERP") implementation to integrate and simplify finance and general ledger systems across Loblaw Properties Limited and *President's Choice Financial*. The Company is planning for additional system implementations in 2010 to streamline merchandising and operations activities. This is one of the largest technology infrastructure programs ever implemented by the Company and is fundamental to the Company's long-term growth strategies. Completing it will require intense focus and significant investment over the next two years.

Change management risk and other associated risks will arise from the various projects which will be undertaken to upgrade existing systems and introduce new systems to effectively manage the business going forward. Failure by the Company to appropriately invest in information technology or failure to implement information technology infrastructure in a timely or effective manner may negatively impact the Company's financial performance.

Any significant failure or disruption of these systems or the failure to successfully migrate from legacy systems to new systems as part of the Company's significant IT infrastructure initiatives, could negatively affect the Company's reputation, ability to carry on business, revenues and financial performance. If the information provided by the information technology systems is inaccurate, the risk of disclosing inaccurate or incomplete information is increased.

Any failures in the Company's information security systems or non-compliance with information security standards, including those in relation to personal information belonging to the Company's customers, could result in harm to the reputation or competitive position of the Company and could negatively affect financial performance.

## DESCRIPTION OF THE BUSINESS

### Operations

Loblaw, a subsidiary of George Weston Limited, is Canada's largest food distributor and a leading provider of drugstore, general merchandise, and financial products and services. Loblaw's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices. For over 50 years, the Company has supplied the Canadian market with innovative products and services through corporate, franchised and associated stores. The Company primarily offers three distinct store formats: Superstore, Great Food, Hard Discount. It also operates Wholesale club stores. Corporate owned store banners include *Atlantic Superstore*, *Dominion*[*] (in Newfoundland and Labrador), *Extra Foods*, *Loblaws*, *Loblaw Great Food*, *Maxi*, *Maxi & Cie*, *Provigo*, *The Real Canadian Superstore*, *Loblaw Superstore*, *T&T Supermarket* and *Zehrs* and wholesale outlets operating as *Cash & Carry*, *Presto* and *The Real Canadian Wholesale Club.* The Company's franchised and affiliated stores operate under trade names including *Atlantic SaveEasy*, *Fortinos*, *Extra Foods*, *no frills*, *SuperValu*, *Valu-mart*, *Provigo* and *Your Independent Grocer.* The store network is supported by 27 Company operated and five third-party warehouse facilities located across Canada, as well as temporary storage facilities when required.

In addition, the Company makes available to consumers *President's Choice Financial* services and products, including the *President's Choice Financial* MasterCard®, and *PC Financial* auto, home, travel and pet insurance, *PC* Mobile phone service, as well as a loyalty program known as *PC* points.

* Trademark used under license

## Geographic and Banner Summary

For the recently completed year, the Company operated across Canada as set out below:

| | Corporate Stores | Franchised Stores | Affiliated Stores | Independent Accounts | Warehouses |
|---|---|---|---|---|---|
| Newfoundland and Labrador | 13 | 8 | 31 | 103 | 1 |
| Prince Edward Island | 4 | 4 | 8 | 45 | - |
| Nova Scotia | 34 | 15 | 21 | 303 | 2 |
| New Brunswick | 21 | 22 | 19 | 124 | 2 |
| Quebec | 221 | 23 | 184 | 493 | 4 |
| Ontario | 156 | 289 | 63 | - | 7 |
| Manitoba | 25 | - | 27 | - | 1 |
| Saskatchewan | 32 | 3 | 27 | - | 1 |
| Alberta | 58 | 18 | 7 | - | 3 |
| Northwest Territories | 2 | - | - | - | - |
| Yukon | 1 | 1 | 1 | - | - |
| British Columbia | 46 | 33 | 25 | - | 6 |
| Total | 613 | 416 | 413 | 1,068 | 27 |

The following table sets out the distribution of the Company's store formats and the banners associated with each format.

| | Corporate Stores | Franchised Stores | Affiliated Stores |
|---|---|---|---|
| **Superstore** | | | |
| Atlantic Superstore | 53 | | |
| Dominion* (in Newfoundland and Labrador) | 12 | | |
| The Real Canadian Superstore | 109 | | |
| **Great Food** | | | |
| Atlantic SaveEasy | | 48 | |
| Fortinos | | 20 | |
| Loblaws | 76 | | |
| Provigo | 65 | 23 | |
| SuperValu | 2 | 5 | 15 |
| T&T Supermarket | 18 | | |
| Valu-mart | | 62 | |
| Your Independent Grocer | | 53 | |
| Zehrs | 43 | | |
| Other | 2 | 7 | 398 |
| **Hard Discount** | | | |
| Extra Foods | 60 | 25 | |
| Maxi | 91 | | |
| Maxi & Cie | 18 | | |
| No Frills | | 173 | |
| **Wholesale** | | | |
| Cash & Carry | 19 | | |
| Presto | 11 | | |
| The Real Canadian Wholesale Club | 34 | | |
| Total | 613 | 416 | 413 |

* Trademark used under license

The average store size at year end 2009 for corporate stores and franchised stores was 62,300 and 29,700 square feet, respectively. The average store size for both corporate stores and franchised stores has increased by 2.82% and 2.75% respectively over the last three years as the Company has generally moved to larger store formats.

Whenever practical, the Company follows a strategy of purchasing land for future store locations. At year end 2009, after the acquisition of T&T, the Company owned 72% of the real estate on which its corporate stores are located, 48% of the real estate on which its franchised stores are located, as well as various properties under development or held for future development. The Company's owned properties are largely unencumbered, with $98 million in mortgage debt on total fixed assets including real estate, having a net book value of approximately $8.6 billion at year end 2009. The total square footage of the owned corporate and franchise stores is approximately 27.7 million square feet and 6.0 million square feet, respectively.

A substantial portion of the Company's revenues and earnings come from amounts paid by franchisees. The Company benefits from the management of these stores by entrepreneurial owner/operators. Franchisees enter into agreements with the Company that generally require the franchisee to purchase inventory from the Company and to pay certain fees in exchange for services provided by the Company or approved suppliers and for the right to use certain trademarks owned by the Company. The Company also participates in the profits of most of its franchise stores by way of preferred shareholdings or other arrangements. Services available to the franchisees by the Company include store set-up, marketing support and accounting systems. Independent franchisees generally lease the land and store building from the Company and, if eligible, may obtain financing through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixtures and equipment.

Franchisees are independent businesses and, as a result, their operations may be negatively affected by factors beyond the Company's control which in turn may damage the Company's reputation and potentially affect revenues and earnings. 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, including health and safety exposures, experience financial difficulty, or be unwilling or unable to pay the Company for products, rent or other fees. The Company's franchise system is also subject to franchise laws and regulations enacted by a number of provinces. Any new legislation or failure to comply with existing legislation may negatively affect operations, and could add administrative costs and administrative burdens, all of which could affect the Company's relationship with its franchisees. Relationships with franchises could pose significant risks if they are disrupted which could result in legal action, reputational damage and adverse consequences.

Certain independent franchisees of the Company obtain financing through a structure involving independent trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These trusts are administered by a major Canadian chartered bank.

**Competitive Conditions**

The retail industry in Canada is highly competitive and the Company faces strong competitors. The industry is driven primarily by consumer demand, which is impacted by economic trends, changing demographics, ethnic diversity, health and environmental awareness and time availability. Recent consumer trends that dominate the industry include customer's concerns for their own and their family's health, concerns regarding the recent economic downturn, lack of time, increasing demand for value, increased household debt, a willingness to buy certain general merchandise on food-focused shopping trips and an increasing demand that retailers source ethically and in a way that demonstrates care for the environment and the community.

The Company's competitors include traditional supermarket operators, as well as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drugstore and general merchandise. Others remain focused on supermarket-type merchandise. The Company is also subject to competitive pressures from new entrants into the marketplace and from the expansion or combination of existing competitors, particularly those expanding into the grocery market. These competitors may have extensive resources to allow them to compete effectively with the Company in the long term. Several of the Company's competitors operate in a non-union environment. These competitors may benefit from lower labour costs and more favourable operating efficiencies, making it more difficult for the Company to compete. Increased competition could adversely affect the Company's ability to achieve its objectives. The Company's inability to compete effectively with its current or any future competitors could result in, among other things, reduced market share and growth opportunities, as well as lower pricing in response to its competitors' pricing activities.

In addition, competitors could acquire or develop partnerships with other businesses, which could increase their market share or otherwise improve their competitiveness. If significant acquisitions or alliances are undertaken by competitors, the Company could lose opportunities for growth and partnerships in the market or otherwise experience adverse consequences.

The Company monitors its market share and the markets in which it operates and will adjust its operating strategies, which include, but are not limited to, closing underperforming stores, relocating stores or reformatting them under a different banner, reviewing and adjusting pricing and product offerings and marketing programs. However, the Company's competitive position and financial performance could be negatively impacted should any of the above events occur.

Although much work remains to be done to successfully implement the Company's strategies, the Company believes that its competitive position in Canada remains strong. The Company will continue to focus on the value proposition of its banners and on ensuring the right formats are in the right markets. In addition, its control label offering promotes customer loyalty and allows pricing flexibility with respect to national brands.

**Customers**

The Company is not dependent upon a small number of customers or any single customer.

**Products and Services**

*Control Label Products*

The Company has developed a successful line of control label products and services that are sold or made available in its corporate, franchised and affiliated 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 label brands.

The Company markets control label products in the food, health and beauty, apparel and general merchandise, categories under brand names including *President's Choice, PC, PC Organics, Blue Menu, Mini Chefs, no name, Joe Fresh Style, Club Pack, G.R.E.E.N, Exact* and *Teddy's Choice*.

Health, Home and Wholesome is Loblaw's goal to be recognized as making healthy and sustainable living affordable for all Canadians. Aligned with these goals, Loblaw offers the *Blue Menu* and *PC Organics* lines.

A selection of control label general merchandise items has been developed as part of the expansion into general merchandise departments. These products are sourced world wide and cater to all areas of the home including bed, bath, kitchen, home decor and outdoor living. In recent years, the Company has reduced and rationalized its general merchandise offerings while expanding and focusing on its apparel offering.

*Marketing*

The Company's marketing programs are focused on scheduled events and on the promotion and advertising for various control-label products and services which are exclusive to the Company. These programs are supported by research activity, including consumer insight and brand awareness measures. The marketing team also influences item selection to be promoted in weekly flyers, across all store formats.

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.

A variety of unique communications media are used to inform and educate consumers about the Company's products and services. The *President's Choice Insider's Report* is considered a "must-read" by millions of consumers across the country. The *Insider's Report* is a creative description of new products offered by the season and highlights price, value and quality of its control-label advantage. While the loyalty program for the Company is managed through *President's Choice Financial*, the marketing team supports its brands by including special loyalty offers of *PC* points, redeemable at any banner for any products, in many marketing promotions. Twice a year, the Company participates in Canada's Fashion Week to promote its *Joe Fresh Style* apparel brand. *President's Choice* and the *Joe Fresh Style* brand receive significant advertising presence on television, in major magazine publications and on the internet.

The Company's focus on marketing initiatives has increased over the last few years, with increased investments, higher profile marketing and public relations campaigns and a greater emphasis on event marketing.

The Company also promotes its products and engages its consumers though its websites such as www.PC.ca and www.joe.ca which allow consumers to participate in contests, rate and review food products, and create a personal wardrobe. Recently the Company has begun to use social networking sites in its marketing efforts.

*President's Choice Financial*

President's Choice Bank offers the *President's Choice Financial* MasterCard® throughout Canada. Third-party service providers process credit card transactions and provide call centre services and support in addition to performing certain operational processes in accordance with the risk management strategies for the *President's Choice Financial* MasterCard®.

The Company also offers *President's Choice Financial* personal banking services and products in all provinces except Quebec, which are provided by the direct banking division of a major Canadian chartered bank.

The Company offers *PC Financial* pet and travel insurance through its subsidiary, PC Financial Insurance Agency Inc. *PC Financial* pet insurance is available in each province and territory except for Quebec and New Brunswick. *PC Financial* travel insurance is currently available in all provinces and territories except for Quebec. In February 2010, the Company launched a new home and auto insurance program in Ontario and Alberta through its subsidiary, PC Financial Insurance Broker Inc.

*PC Mobile*

The Company offers the *PC* Mobile line of prepaid cellular phone services and related accessories. *PC* Mobile services are provided in conjunction with a major Canadian telecommunications company.

**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 label programs. Store-trading or banner names are associated with specific retail concepts and are important to both corporate store and franchised store operations. Franchisees use the banner names associated with their franchise program pursuant to licensing arrangements. The Company's trademarks used in connection with its control label program are discussed under the section "Products and Services". 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.

Decrease in the value of the Company's trademarks or brands, either because of adverse events or otherwise over time may threaten the demand for the Company's products or services or damage the Company's reputation. The Company endeavours to have the appropriate contractual protections in its arrangements with control label vendors and suppliers of all marketing elements. The Company actively monitors and manages its trademark portfolio. Notwithstanding these activities, any negative impact to the value of the Company's trademarks or brands may impair its ability to maintain or grow current and future sales and profitability.

**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 significant overhaul of its IT systems, as described elsewhere in this AIF.

The Company operates point of sale 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 clearing services. Loblaw also uses outsourced services, in particular for its mainframe-related applications and technology, pharmacy and Photolab businesses and services to *President's Choice Financial* Services.

Any failures in the Company's information security systems or non-compliance with information security standards, including those in relation to personal information belonging to the Company's customers, could result in harm to the reputation or competitive position of the Company and could negatively affect financial performance.

**Supply Chain**

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

The Company's supply chain and distribution network is comprised of a total of 27 warehouses and distribution centres. Third-party logistics service providers are used at 5 distribution centres located in Pickering, Ajax, Caledon, Calgary and Vancouver. 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 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**

Glenhuron Bank Limited, a wholly owned indirect subsidiary of the Company with operations in Barbados, is engaged in financial services including cash management and treasury-related activities. The Company is not dependent on these operations.

**Colleagues**

As of January 3, 2010, the Company and its franchisees together employed over 138,000 full-time and part-time employees. A majority of the Company's store level and distribution centre colleagues are unionized. Currently the Company's unionized workforce is covered by a total of 367 collective agreements with 17 unions.

**Lending**

The President's Choice 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, President's Choice Bank employs advanced credit scoring tools, stringent credit card portfolio monitoring, and technology that produces an effective account management and collection process.

**Environmental, Health and Safety Matters**

The Company has environmental, health and workplace safety programs and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, the Company employs environmental risk assessments and audits using internal and external resources together with employee awareness programs throughout its operating locations. The Company endeavours to be socially and environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound environmental stewardship and ecological considerations. The Company participates in industry and government-led environmental initiatives aimed at reducing the environmental impact of its operations. In the area of health and safety, the Company has established a national health and safety policy and a 5-year injury reduction plan, which is administered by functional corporate and regional safety steering committees.

The Company maintains a large portfolio of real estate and is subject to environmental risks associated with the contamination of such properties, whether by previous owners or occupants, neighbouring properties or from its own operations. The Company could be subject to increased or unexpected costs associated with the related remediation activities.

The Environmental, Health and Safety Committee of the Board of Directors receives regular reporting from management addressing current and potential future issues, identifying new regulatory concerns and related communication efforts. The Company's dedicated Environmental Affairs staff works closely with the operations to help ensure corporate requirements are met.

Despite these efforts, adverse environmental, health and safety events could negatively affect the Company's reputation and financial performance. In addition, in recent years, provincial and municipal governments have introduced legislation that imposes liabilities on brand owner and importers for costs associated with recycling and disposal of consumer goods packaging. This is a growing trend and the Company expects to be subject to increased costs associated with these laws.

**Corporate Social Responsibility**

The Company has established a framework through which its corporate social responsibility ("CSR") activities are pursued and has linked commitments to its business plan through five pillars: 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. Operations are reviewed and assessed against these pillars, and performance is reported through vehicles such as an annual CSR Report.

The Company believes that publishing CSR objectives and progress in a public document helps keep colleagues on track and motivated, and enables others to get engaged and involved with our efforts. The Company welcomes this dialogue as a means of building our record of accountability and effecting large-scale positive change.

Loblaw will issue its third CSR Report in April 2010.

**Food Safety, Public Health and Labelling**

The Company is subject to risks associated with food safety and non-food product defects. Such liabilities may arise as part of product procurement, distribution and product preparation and display, including the development and manufacture of the Company's control label products. A majority of the Company's sales are generated from food products and thus could be vulnerable in the event of a significant outbreak of food-borne illness or other public health concerns related to food products. Such an event could negatively affect the Company's financial performance. The traceability of products to the consumer level may affect the Company's ability to be effective in a recall situation.

A product recall program is in place to manage such events, should they occur. The program identifies risks, provides clear procedures for communication to employees and consumers and is aimed at ensuring that potentially harmful products are expeditiously removed from inventory and are not available for sale. The Company has food safety procedures and training programs which address safe food handling and preparation standards. The Company endeavours to employ current best practices for the procurement, distribution and preparation and display of food products. Also, it actively supports customer awareness of safe food handling and healthy choices. The Company places special focus on applying a safety and quality management system to ensure its control label products meet all food safety, regulatory nutritional requirements and quality standards for today's health conscious consumer to make informed choices. The ability of these programs and procedures to address such events is dependent on their successful execution. The existence of these procedures does not mean that the Company will in all circumstances be able to mitigate the underlying risks and any event related to these matters has the potential to adversely affect the Company's reputation and its financial performance.

The Company strives to ensure its control label products meet all applicable regulatory requirements including having nutritional labelling so that today's health conscious consumer can make informed choices.

**Privacy and Ethics**

The Company is committed to managing its activities in an ethical and proper manner in all respects. The Company has adopted a Code of Business Conduct setting out the Company's expectations for the ethical and appropriate behaviour of all its directors and employees. In addition, the Company has established an Ethics and Business Conduct Committee to monitor compliance with the Code of Business Conduct and deal with conduct and ethics issues as they arise. The Company also has a Privacy Code that sets out the Company's commitment to protect the privacy of personal information.

The Company encourages reporting of unethical conduct and has established a toll-free anonymous response line, which can be used by employees to report suspected accounting, internal control or auditing irregularities or unethical behaviour impacting the Company.

The Company has adopted a Vendor Code of Conduct which sets out the Company's expectations of its vendor community in the areas of social, environmental and legal compliance.

Any failure of the Company to adhere to its policies, the law or ethical business practices could significantly affect its reputation and brands and could, therefore, negatively impact the Company's financial performance.

**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 managed through an Enterprise Risk Management ("ERM") program. The ERM program assists all areas of the business in achieving the Company's strategic objectives by bringing a systematic approach, methodology and tools for evaluating and improving the effectiveness of risk management and control. The results of the ERM program and other business planning processes are used to prioritize risk management activities, allocate resources effectively and develop a risk-based internal audit plan.

The Company identifies and manages its risks in support of its vision, mission and goals to assist in achieving its strategic objectives. Risk is not eliminated through the ERM program; rather risks are identified and managed within acceptable risk tolerances. The ERM program is designed to:

- Promote a cultural awareness of risk management and compliance within the Company that promotes responsible risk taking;
- Facilitate corporate governance by providing a consolidated view of risks across the Company and insight into the identification, assessment, measurement and monitoring of the risks;
- Ensure that resources are acquired economically, used efficiently and adequately protected; and
- Allow the Company to focus on its key risks in the business planning process and optimize financial performance through responsible risk management.

An ERM policy has been approved by the Board of Directors which dictates the purpose, objectives, roles and responsibilities of the ERM program.

An annual ERM assessment is completed to assist in the identification of financial, operational or reputational risks affecting the Company. The ERM program is primarily carried out through interviews and risk assessments with senior management. Risks are assessed based on the likelihood and impact that the underlying risk would have on the Company's ability to execute its strategies and achieve its objectives. Each quarter, management provides an update to the Audit Committee on the ERM program that includes an indication of whether the likelihood of occurrence or potential impact of the top ten risks are increasing, decreasing or remain unchanged compared to the prior quarter. The accountability for oversight of the management of each risk is allocated by the Audit Committee to either the full Board of Directors or to a Committee of the Board. At least once a year, the relevant business owners update the applicable Committee or the full Board of Directors on their risk management activities over the course of the preceding year.

The Board oversees the Company's ERM process and validates the risk universe and risk prioritization. In the normal course of business, the Company is exposed to financial and market risks that have the potential to negatively affect its financial performance. As such, the Company operates with policies and guidelines covering funding, investing, equity, commodity, foreign currency exchange and interest rate management. The guidelines prohibit the use of any financial derivative instrument for trading or speculative purposes.

Some of the operating, financial and reputational risks and risk management strategies identified by management are discussed in this AIF and others are included in the Risks and Risk Management section of the MD&A included in the Company's 2009 Annual Report which is incorporated by reference. Any of these risks has the potential to negatively affect financial performance. The Company has risk management strategies including insurance programs, which are intended to mitigate the potential impact of these risks. While the Company employs these strategies with the goal of minimizing these risks, some of which are discussed in this AIF and the MD&A, these strategies do not guarantee that the associated risks will be mitigated or not materialize or that events or circumstances will not occur which could negatively affect the Company's financial condition and performance.

Further information on the Company's business can be found in the MD&A. This information is incorporated herein by reference.

## 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 attaching to any other class of shares of the Company, to receive any dividend declared by the Company and to receive the remaining property of the Company upon dissolution. As at January 2, 2010 there were 276,188,258 Common Shares issued and outstanding. There are an unlimited number of authorized Common Shares.

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 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. They are entitled to preferences over the Common Shares and any other shares of the Company ranking junior to the Second Preferred Shares, Series A, (i) with respect to the priority in the payment of dividends and (ii) with respect to the priority in the distribution of assets of the Company in the event of liquidation, dissolution or winding-up of the Company. Holders of the Second Preferred Shares, Series A are not entitled to vote. On and after July 31, 2013 the Company may redeem the Second Preferred Shares, Series A for cash or may, at its option, convert them into Common Shares on specified terms and conditions. As at January 2, 2010 there were 9,000,000 Second Preferred Shares, Series A outstanding.

### 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 Companies Limited's Common Shares and Second Preferred Shares, Series A for 2010 were as follows:

**COMMON SHARES**

| **Month** | **High** ($ per share) | **Low** ($ per share) | **Average Daily Volume by Month** (in shares) |
|---|---|---|---|
| January | 37.57 | 34.19 | 383,689 |
| February | 35.00 | 29.83 | 388,534 |
| March | 32.77 | 28.83 | 392,808 |
| April | 33.44 | 30.12 | 450,044 |
| May | 36.90 | 31.50 | 427,251 |
| June | 36.52 | 34.00 | 402,551 |
| July | 36.17 | 32.49 | 318,038 |
| August | 34.80 | 31.77 | 363,649 |
| September | 33.55 | 31.20 | 390,286 |
| October | 32.00 | 29.80 | 300,156 |
| November | 33.20 | 29.72 | 580,598 |
| December | 34.19 | 32.31 | 355,505 |

**SECOND PREFERRED SHARES, SERIES A**

| **Month** | **High** ($ per share) | **Low** ($ per share) | **Average Daily Volume by Month** (in shares) |
|---|---|---|---|
| January | 24.00 | 23.10 | 12,649 |
| February | 24.00 | 23.50 | 15,963 |
| March | 24.45 | 23.65 | 10,334 |
| April | 25.40 | 24.06 | 17,212 |
| May | 25.95 | 25.20 | 24,194 |
| June | 25.89 | 25.60 | 12,828 |
| July | 26.60 | 25.60 | 6,817 |
| August | 27.44 | 26.40 | 8,164 |
| September | 26.99 | 26.60 | 14,448 |
| October | 27.00 | 26.40 | 14,690 |
| November | 27.12 | 26.80 | 8,766 |
| December | 27.15 | 26.90 | 22,764 |

Loblaw Companies Limited's Medium Term Notes ("MTN") are not listed or quoted on a recognized exchange. In the second quarter of 2009 the Company issued $350 million principal amount of unsecured Medium Term Notes, Series 2-A pursuant to its Medium Term Notes, Series 2 program. The Series 2-A notes pay a fixed rate of interest at 4.85% payable semi-annually commencing on November 8, 2009 until maturity on May 8, 2014 and are subject to certain covenants.

**Credit Ratings**

In 2009, Dominion Bond Rating Service ("DBRS") and Standard & Poor's ("S&P") changed their overall trend and outlook to 'Stable' from 'Negative'.

As at February 18, 2010 Loblaw Companies Limited's credit ratings for its securities were as follows:

| | **Dominion Bond Rating Service** | | **Standard & Poor's** | |
|---|---|---|---|---|
| | **Rating** | **Trend** | **Rating** | **Outlook** |
| Commercial Paper | R-2(middle) | Stable | A-2 | Stable |
| Medium Term Notes | BBB | Stable | BBB | Stable |
| Preferred Shares | Pfd-3 | Stable | P-3 (high) | Stable |
| Other Notes and Debentures | BBB | Stable | BBB | Stable |

The rating organizations base the ratings on quantitative and qualitative considerations which are relevant for Loblaw Companies Limited. These ratings are intended to give an indication of the risk that Loblaw Companies Limited 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

*Commercial Paper*

DBRS' ratings for commercial paper range from R-1 (high) to D. The R-2 (middle) rating is ranked fifth of ten rating categories. Short-term debt rated R-2 (middle) is considered to be of adequate credit quality. Relative to the R-2 (high) category, entities rated R-2 (middle) typically have some combination of higher volatility, weaker debt or liquidity positions, lower future cash flow capabilities, or are negatively impacted by a weaker industry. Ratings in this category would be more vulnerable to adverse changes in financial and economic conditions.

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

DBRS' credit ratings for long term debt range from AAA to D. Each rating category is denoted by the 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 debt rated BBB is of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present, which reduce the strength of the entity and its rated securities.

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.

*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.

<u>Standard & Poor's</u>

*Commercial Paper*

Standard & Poor's Canadian ratings for Commercial Paper range from A-1 to D. The A-2 rating is ranked fourth of eight rating categories. Obligations rated A-2 reflect a satisfactory capacity of the obligor to fulfill its financial commitment on the obligation, while exhibiting higher susceptibility to changing circumstances or economic conditions than obligations rated A-1 (Low). Obligations rated A-2 on the Canadian commercial paper rating scale would qualify for a rating of A-2 on Standard & Poor's global short-term rating scale.

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

Standard & Poor's long-term issue credit ratings range from AAA to D. The BBB rating is ranked fourth of ten 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.

A Standard & Poor'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.

*Preferred Shares*

Standard & Poor'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.

## DIVIDENDS

The Company has paid quarterly dividends on its Common Shares for over 50 years. The declaration and payment of dividends and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time. Over the long-term, the Company's objective is for its dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per Common Share adjusted as appropriate for items which are not regarded to be reflective of ongoing operations, giving consideration to the year end cash position, future cash flow requirements and investment opportunities.

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 $1.4875 per share per annum which will, if declared, be payable quarterly.

For the past three years, dividends on Common Shares have been declared quarterly in equal amounts. The amount of cash dividends declared in each of the three most recently completed years is as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Dividends declared per common share | $0.84 | $0.84 | $0.84 |
| Dividends declared per second preferred share, series A | $1.49 | $0.91 | - |

Subsequent to year end 2009, the Board of Directors declared a quarterly dividend of $0.21 per Common Share, payable April 1, 2010 and a quarterly dividend of $0.37 per Second Preferred Share, series "A" payable April 30, 2010.

## DIRECTORS AND OFFICERS

The following list of Directors and Officers is current to March 12, 2010.

### Directors

| Name, Province and Country of Residence | Principal Occupation | Director Since |
|---|---|---|
| Galen G. Weston[1]<br>Ontario, Canada | Executive Chairman of the Corporation | 2006 |
| Allan L. Leighton[1]<br>Ontario, Canada | Deputy Chairman and President of the Corporation, Deputy Chairman of George Weston Limited | 2006 |

**Directors**

| Name, Province and Country of Residence | Principal Occupation | Director Since |
|---|---|---|
| Stephen E. Bachand[3]<br>Florida, United States | Corporate Director | 2009 |
| Paul M. Beeston, C.M. [2,3]<br>Ontario, Canada | Chief Executive Officer, Toronto Blue Jays Baseball Club | 2005 |
| Paviter S. Binning [2]<br>Ontario, Canada | Executive Vice President and Chief Financial Officer, Nortel Networks Corporation | 2009 |
| Gordon A.M. Currie[4]<br>Ontario, Canada | Executive Vice President and Chief Legal Officer of the Corporation and George Weston Limited | 2006 |
| Camilla H. Dalglish[5]<br>Ontario, Canada | Corporate Director | 1991 |
| Anthony S. Fell, O.C. [3*, 4*]<br>Ontario, Canada | Corporate Director | 2001 |
| Anthony R. Graham[1,3,4]<br>Ontario, Canada | President, Wittington Investments, Limited, holding company controlled by Mr. W.G. Weston, Chairman, George Weston Limited | 1999 |
| John S. Lacey<br>Ontario, Canada | Chairman of Advisory Board, Tricap Restructuring Fund | 2007 |
| Nancy H.O. Lockhart, O.Ont.[3,5*]<br>Ontario, Canada | Chief Administrative Officer, Frum Development Group, property development and management company | 2005 |
| Pierre Michaud, C.M.[5]<br>Quebec, Canada | Vice-Chairman, Laurentian Bank of Canada | 1999 |
| Thomas C. O'Neill [2*]<br>Ontario, Canada | Chairman of the Board of BCE Inc. and Bell Canada | 2003 |
| Karen Radford [5]<br>Quebec, Canada | Executive Vice President and President, TELUS Quebec and TELUS Partner Solutions | 2008 |
| John D. Wetmore[2, 4]<br>Ontario, Canada | Corporate Director | 2006 |

1. Executive Committee
2. Audit Committee
3. Governance, Employee Development, Nominating and Compensation Committee
4. Pension and Benefits 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 |
| Allan L. Leighton<br>Ontario, Canada | Deputy Chairman and President |
| Gordon A.M. Currie<br>Ontario, Canada | Executive Vice President,<br>Chief Legal Officer |
| Robert Vaux<br>Ontario, Canada | Chief Financial Officer |
| Roland Boudreau<br>Ontario, Canada | Executive Vice President,<br>Ontario Market |
| Jocyanne Bourdeau<br>Quebec, Canada | Executive Vice President,<br>Quebec Market |
| Mark Butler<br>Ontario, Canada | Executive Vice President,<br>Central Operations |
| Barry K. Columb<br>Ontario, Canada | Executive Vice President,<br>Financial Services |
| Roy R. Conliffe<br>Ontario, Canada | Executive Vice President,<br>Labour Relations |
| Sarah R. Davis<br>Ontario, Canada | Executive Vice President,<br>Finance |
| Grant B. Froese<br>Ontario, Canada | Executive Vice President,<br>Merchandising |
| Louise Lacchin<br>Ontario, Canada | Executive Vice President,<br>Finance |
| S. Jane Marshall<br>Ontario, Canada | Executive Vice President,<br>Real Estate and Special Projects |
| Judy McCrie<br>Ontario, Canada | Executive Vice President,<br>Human Resources |
| Calvin McDonald<br>Ontario, Canada | Executive Vice President,<br>Marketing, Customer Relationship Management and Loblaw Brands Limited |
| Peter K. McMahon<br>Ontario, Canada | Executive Vice President,<br>Supply Chain |
| Arnu Misra<br>Ontario, Canada | Executive Vice President,<br>National Retail Operations |

**Officers**

| Name, Province and Country of Residence | Principal Occupation |
|---|---|
| Vince Scorniaenchi<br>Ontario, Canada | Executive Vice President,<br>Fortinos & Fresh Food Development |
| Garry Senecal<br>Ontario, Canada | Executive Vice President,<br>Grocery, no frills |
| Robert A. Balcom<br>Ontario, Canada | Senior Vice President,<br>Secretary |
| Gordon Chem<br>British Columbia, Canada | Senior Vice President,<br>Western Market |
| Manny J. DiFilippo<br>Ontario, Canada | Senior Vice President,<br>Risk Management and Strategic Initiatives |
| J. Bradley Holland<br>Ontario, Canada | Senior Vice President,<br>Taxation |
| Andrew Iacobucci<br>Ontario, Canada | Senior Vice President,<br>Pharmacy, HBC & Optical |
| Philip McNeill<br>Ontario, Canada | Senior Vice President,<br>Atlantic Market |
| Lucy J. Paglione<br>Ontario, Canada | Senior Vice President,<br>Pension and Benefits |
| Evangelia (Litsa) Popowich<br>Ontario, Canada | Senior Vice President,<br>Controller |
| Jeremy Roberts<br>Ontario, Canada | Senior Vice President,<br>Finance |
| Timothy J. Scott<br>Ontario, Canada | Senior Vice President,<br>Internal Audit and Internal Control Compliance |
| Geoffrey H. Wilson<br>Ontario, Canada | Senior Vice President,<br>Shared Services |

As a group, the directors and executive officers of the Company hold approximately 0.16% 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. Allan Leighton, who was Chairman of Royal Mail Group; Mr. Roland Boudreau, who was Senior Vice-President, Operations at A&P Canada and prior to that was Senior Vice-President, Operations at Wal-Mart Canada; Ms. Sarah R. Davis who was Vice President, Controller at Rogers Communication Inc.; Mr. Barry K. Columb who was President at CitiCards Canada; Mr. Gordon A.M. Currie, who was Senior Vice President and General Counsel of Direct Energy Marketing Limited; Ms. Judy McCrie who was Vice President, General Manager for Neilson Dairy; Mr. Peter K. McMahon, who was a senior executive at Wal-Mart Europe; Ms. Litsa Popowich, who was Vice President, Risk Management at Fairmont Raffles Hotels International and prior to that was Vice President, Sarbanes Oxley at Nortel Networks

Corporation; Mr. Arnu Misra, who was Chief Executive Officer of Cannons Health & Fitness Group; Mr. Timothy J. Scott, who held positions at Maple Leaf Foods Inc. including, Vice President, Finance for Maple Leaf Global Foods and prior to that was Vice President, Internal Audit for Maple Leaf Foods Inc. and Canada Bread Company Ltd.; Mr. Jeremy Roberts who held the position of Chief Financial Officer and other senior finance positions at World Color Press Inc. (formerly Quebecor World Inc.); Mr. Vince Scorniaenchi who was President of Medica One Ltd. and Mr. John D. Wetmore who was Vice President, Contact Centre Development of IBM Americas and formerly President and Chief Executive Officer of IBM Canada.

Mr. Bachand was a director of Krystal Bond Inc. when it became subject to a cease trade order on April 12, 2002 for failure to file financial statements. Mr. Bachand is no longer a director of Krystal Bond Inc.

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

In December of 1998 Mr. Lacey joined the board of directors of The Loewen Group Inc. and was acting as Chairman when it filed a petition for creditor protection under Chapter 11 of the U.S. Bankruptcy Code and the Companies' Creditors Arrangement Act (CCAA) in June 1999. The Loewen Group Inc. emerged from Chapter 11 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 at which time Mr. Lacey resigned from the board.

Mr. Leighton was a member of the board of directors of Leeds United Football, PLC when that company was subject to administration proceedings.

As director of Research in Motion Limited ("RIM"), Mr. Wetmore was subject to a management cease trade order issued by the Ontario Securities Commission on November 7, 2006 as a result of RIM not having filed its second quarter financial statements for fiscal 2007 before the statutory filing deadline. That order ceased to be in effect as of May 23, 2007 as result of RIM making all of the filings it was required to make pursuant to Ontario securities laws.

## LEGAL PROCEEDINGS

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

## MATERIAL CONTRACTS

The Company has an agreement with its parent and majority shareholder George Weston Limited ("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 2009 were $16 million. Fees paid under this agreement are reviewed each year by the Audit Committee.

## 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 has prepared the Auditors' Report to Shareholders in respect of its audited annual consolidated financial statements. KPMG LLP is independent of the Company in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

## AUDIT COMMITTEE INFORMATION

The Audit Committee Charter, as approved by the Company's Board of Directors on March 12, 2010 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 an FCA, the CEO 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. Binning is the Executive Vice President, CFO and Chief Restructuring Officer of Nortel Networks Corporation. He is a fellow of the Chartered Institute of Management Accountants (U.K.)
>
> Mr. O'Neill is an FCA and former Chairman of PricewaterhouseCoopers Consulting, COO of PricewaterhouseCoopers LLP, Global, and CEO of PricewaterhouseCoopers LLP, Canada. Mr. O'Neill has a Bachelor of Commerce Degree from Queen's University.
>
> Mr. Wetmore is the former President and Chief Executive Officer of IBM Canada. He also held various senior finance positions at IBM Americas. He has a Bachelor of Mathematics from the University of Waterloo and graduated from the Advanced Executive Program at the Kellogg School, Northwestern University.

## EXTERNAL AUDIT FEES

The aggregate fees of KPMG LLP for professional services rendered for the audit of the Company's financial statements and other services for the fiscal years 2009 and 2008 are as follows:

| | 2009 Actual $(000' s) | 2008 Actual $(000's) |
|---|---|---|
| Audit fees(1) | 2,399 | 2,326 |
| Audit-related fees(2) | 1,918 | 1,965 |
| All other fees(3) | 38 | 26 |
| Total Fees | **4,355** | **4,317** |

(1) Audit fees include fees for services related to the audit of the Corporation's consolidated financial statements.
(2) Audit-related fees include assurance and related services that are performed by the Corporation's auditor. These services include the review of quarterly reports to shareholders, audit of pension plans, comfort letters and the interpretation of accounting and financial reporting standards.
(3) Other fees for services related to risk management, internal control/compliance, 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 securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Company's Management Proxy Circular for the Annual Meeting of shareholders to be held May 5, 2010. 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, *President's Choice* Bank.

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

# APPENDIX "A"

# LOBLAW COMPANIES LIMITED

## 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");
- 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 Charter 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 Charter, 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, as the case may be, 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 recording 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) Review of Audit Fees**

The Audit Committee has the direct 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 Auditors, 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 Auditors; 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 adequacy of the internal control over financial reporting adopted by the Company.

The Audit Committee shall, with the assistance of management, review the effectiveness of the controls and procedures that have been adopted to ensure the 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 with respect to the Company's system of disclosure controls and procedures. 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 ethics response line or otherwise.

**(q) Enterprise Risk Management**

The Audit Committee shall review the Company's enterprise risk management program, including its policies and processes with respect to risk identification and assessment and the management of the Company's risk. The Audit Committee shall receive periodic reports from Internal Audit Services and the Chair of the Audit Committee shall periodically report to the Board on any major issues arising from the enterprise risk management program.

**(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 adequacy 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 risk identified pursuant to the enterprise risk management program; and
- all other material matters dealt with by the Audit Committee.

## 9. REVIEW AND DISCLOSURE

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

## 10. FREQUENCY OF MEETINGS

The Audit Committee shall meet at least five times annually.

## 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.