Loblaw
Companies
Limited

ANNUAL INFORMATION FORM
(for the year ended December 28, 2019)

February 20, 2020

LOBLAW COMPANIES LIMITED

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(for the year ended December 28, 2019)

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DATE OF INFORMATION

All information in this Annual Information Form ("AIF") is current as of December 28, 2019, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

This AIF for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this AIF include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementation. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2020 is based on certain assumptions, including assumptions about healthcare reform impacts, anticipated cost savings and operating efficiencies and anticipated benefits from strategic initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and, as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

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

- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to execute the Company's e-commerce initiatives or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings and operating efficiencies, or organizational changes that may impact the relationships with franchisees and associates;
- failure to attract and retain talent for key roles that may impact the Company's ability to effectively operate and achieve financial performance goals;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- adverse outcomes of legal and regulatory proceedings and related matters;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business, including issues with vendors in both advanced and developing markets; and
- changes to any of the laws, rules, regulations or policies applicable to the Company's business.

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

1. CORPORATE STRUCTURE

1.1 Incorporation

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

1.2 Intercorporate Relationships

Loblaw Companies Limited is a holding company, which carries on its business through its subsidiaries. A list of the subsidiaries of the Company that carry on its principal businesses is set out below. The Company owns, either directly or indirectly, 100% of the voting and non-voting securities of these subsidiaries.

Subsidiary	Jurisdiction of Incorporation/Formation
Loblaws Inc.	Ontario
Shoppers Drug Mart Inc.	Canada
President's Choice Bank	Canada

Loblaw, George Weston Limited ("Weston") and Choice Properties Real Estate Investment Trust ("Choice Properties") are part of a common control group (the "Weston Group"). Although the entities making up the Weston Group each have their own strategies and, for the most part, focus on different businesses, the entities acknowledge that from time to time new corporate opportunities will arise that potentially could be of interest to more than one entity of the Weston Group. Accordingly, the entities making up the Weston Group have adopted a framework that facilitates the decision making process to allocate opportunities to the entity best suited to pursue the opportunity based on its existing businesses and other considerations.

2. DESCRIPTION OF THE BUSINESS

2.1 Overview

The Company has two reportable operating segments: Retail and Financial Services. The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and includes in-store pharmacies and other health and beauty products, apparel and other general merchandise. The Company's Financial Services segment provides credit card services, insurance brokerage services, guaranteed investment certificates and wireless mobile products and services, and operates the *PC Optimum* loyalty program.

2.2 Retail Segment

The Company is one of Canada's largest grocery, pharmacy and health and beauty retailers. It is also a leading provider of apparel and general merchandise. The Company offers one of Canada's strongest control label programs, including the *President's Choice*, *Life Brand*, *no name, Farmer's Market* and *Joe Fresh* brands. In addition, through the *PC Optimum* loyalty program, the Company rewards Canadian consumers for shopping at its stores.

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

I. Discount

The Company's Discount format stores, including *No Frills* and *Maxi*, are focused on delivering a fresh-led food shop with an offering of products and services aimed at keeping costs low to continuously invest in price. The *Real Canadian Superstore* is a Discount format store that prioritizes total value and offers a one-stop-shop with a broad assortment of food, health and beauty, apparel and general merchandise products. Many of the Company's Discount format stores also include in-store pharmacies. The Company's Discount format stores operate across Canada and include franchised and corporate stores.

II. Market

The Company's full-service or Market format stores, including *Loblaws*, *Zehrs*, *Your Independent Grocer*, *Real Atlantic Superstore, Dominion* (trademark used under license), *Provigo*, *City Market* and *Valu-Mart,* support the Company's vision by delivering a leading fresh offering, breadth of assortment, innovative and quality products, and customer-centric service with strong ties to the communities they operate in. The Market division consists of two primary formats: the Neighbour stores that provide a trusted and familiar full-service shopping experience, and the growing network of renovated and new Inspire stores that specialize in food discovery. Most of the Company's Market format stores also include in-store pharmacies. The Company's Market format stores operate across Canada and include franchised and corporate stores.

III. Shoppers Drug Mart

Shoppers Drug Mart operates stand-alone drug stores under the banners *Shoppers Drug Mart* and *Pharmaprix*. The majority of *Shoppers Drug Mart* stores are owned and operated by Associates. An Associate is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using the Company's trademarks. Many *Shoppers Drug Mart* stores also include a *BeautyBOUTIQUE*, a store-within-a-store concept with open-sell displays focused on prestige cosmetics.

In addition to full-service retail drug stores, *Shoppers Drug Mart*'s banners include other retail formats such as: *Shoppers Simply Pharmacy* (*Pharmaprix Simplement Santé* in Quebec), retail pharmacies located in medical buildings or clinics providing pharmacy products and professional services and advice; and *Wellwise by Shoppers,* selling a wide range of home-care, medical and mobility products and services to retail customers to help Canadians take charge of the way they age.

In addition to its retail store network, the Company owns Shoppers Drug Mart Specialty Health Network Inc., a provider of specialty drug distribution, pharmacy and comprehensive patient support services, MediSystem Technologies Inc., a provider of pharmaceutical products and services to long-term care facilities and QHR Corporation, a leading healthcare technology company. In 2019, the Company launched *Medical Cannabis by Shoppers*, an e-commerce platform for the purchase of medical cannabis.

2.2.1 Geographic and Banner Summary

As at December 28, 2019, the Company, through its subsidiaries, franchisees, and Associates, operated stores in the following jurisdictions[1]:

Jurisdiction	Corporate Stores	Franchised Stores	Associate-Owned Shoppers Drug Mart Stores
Newfoundland and Labrador	12	7	29
Prince Edward Island	4	5	5
Nova Scotia	30	17	35
New Brunswick	20	20	38
Quebec	150	60	179
Ontario	201	310	631
Manitoba	14	9	43
Saskatchewan	16	14	37
Alberta	49	51	166
Northwest Territories	0	2	1
Yukon	1	1	2
British Columbia	53	44	177
Total	**550**	**540**	**1,343**

1 Excluding liquor stores, affiliated independent grocery stores and independent accounts.

As at December 28, 2019, the Company, through its subsidiaries, franchisees and Associates, operated stores under the following banners[2]:

Banner	Corporate Stores	Franchised Stores	Associate-Owned Shoppers Drug Mart Stores
Market			
Loblaws	46	0	—
Provigo	11	57	—
Provigo Le Marche	14	2	—
Valu-mart	0	54	—
Independent	0	128	—
City Market	0	10	—
Zehrs	42	0	—
Atlantic Superstore	51	0	—
Dominion[3]	11	0	—
T&T Supermarket	27	0	—
Fortinos	0	23	—
Discount			
Maxi	114	0	—
Extra Foods	10	3	—
No Frills	0	263	—
Real Canadian Superstore	117	0	—
Shoppers Drug Mart			
Wellwise by Shoppers	43	0	0
Murale	1	0	0
Shoppers Drug Mart/Pharmaprix	0	0	1,300
Shoppers Simply Pharmacy	0	0	43
The Beauty Clinic by Shoppers	2	0	0
Wholesale			
Cash & Carry	5	0	—
Club Entrepot	4	0	—
Presto	6	0	—
Real Canadian Wholesale Club	41	0	—
Apparel			
Joe Fresh	5	—	—
Total	**550**	**540**	**1,343**

2 Excluding liquor stores, affiliated independent grocery stores and independent accounts.

3 Trademark used under license.

As at December 28, 2019, the total square footage of the Company's corporate, franchised and Associate-owned *Shoppers Drug Mart* stores was approximately 35.6 million square feet, 16.3 million square feet and 18.5 million square feet, respectively. The Company, directly or indirectly, owned 7% of the real estate on which its grocery stores are located, 4% of the real estate on which franchised grocery stores are located, as well as various properties under development or held for future development.

The majority of Associate-owned *Shoppers Drug Mart* stores are leased from a diverse group of lessors, and most are leased on a long-term basis with staggered maturity dates.

2.2.2 Control Brand Products

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

The Company markets control brand products in the food, health and beauty and general merchandise categories under a number of brand names, including but not limited to: *President's Choice*, *PC* Organics, *PC Blue Menu*, *PC Black Label Collection*, *no name, Farmer's Market*, *Everyday Essentials, Life at Home, T&T*, *Exact, Quo* and *Life Brand.*

The Company also offers *Joe Fresh* branded apparel, accessories, footwear and cosmetics in many of its grocery stores. In addition, the Company offers *Joe Fresh* products in stand-alone *Joe Fresh* stores in Canada, and in *Shoppers Drug Mart* stores (a limited assortment). *Joe Fresh* products are also available outside of Canada at certain third-party retailers.

2.2.3 Loyalty Program

The Company rewards customers through the *PC Optimum* loyalty program when they shop at its stores and through select partners. *PC Optimum* is the result of the merger of the *PC Plus* and *Shoppers Optimum/Pharmaprix Optimum* loyalty programs on February 1, 2018.

PC Optimum offers a fully digital loyalty experience for its customers, in the form of personalized weekly offers on grocery, health and personal care, convenience and gas. Offers are designed to reward customers for the items they purchase most often while leveraging data to unlock meaningful value for those customers and give them the best possible shopping experience.

Customers can earn *PC Optimum* points by making qualifying purchases or through the use of a *President's Choice Financial* Mastercard. *PC Optimum* points can then be redeemed for groceries and other products at participating stores within the Company's network and certain e-commerce sites.

The *PC Optimum* loyalty program provides the Company with a significant opportunity to employ customer relationship management tools to improve its understanding of customer needs and design promotions that can be targeted to specific customers and customer segments, thereby driving increased customer engagement, sales and profitability.

2.2.4 Supply Chain

The Company's supply chain is responsible for the flow of goods and information between its vendors and suppliers and the Company's distribution centres, and ultimately, to its stores. In some cases, goods flow directly to the Company's stores from the vendors. The Company continuously evaluates its methods of distribution, including its technology, facilities and modes of transportation, and its relationships with vendors and suppliers. 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 includes 25 distribution centres across Canada. Third party logistics service providers are used at several of these distribution centres. The Company uses various modes of transportation, including its own trucking fleet and third party common carriers, railways and ocean carriers. The Company is not dependent on any one of these third party providers.

The Company also strives to source its products in a responsible way. For further details please see "Corporate Social Responsibility and Environmental Polices" on page 10.

2.2.5 Retail Competitive Environment

The retail industry in Canada is highly competitive. The Company competes against a wide variety of retailers, including supermarket and retail drug store operators, as well as mass merchandisers, warehouse clubs, e-commerce retailers and businesses, mail order prescription drug distributors, limited assortment stores, discount stores, convenience stores and specialty stores. The Company is subject to competitive pressures from increases in the type and number of businesses that compete with it, including non-traditional competitors, and from the expansion or renovation of existing competitors. The Company also faces competition from companies offering financial service products, particularly consumer credit cards and their associated consumer loyalty programs.

2.2.6 Seasonality

The Company's retail operations as they relate to food, specifically inventory levels, sales, volume and product mix, are impacted to some degree by seasonality, including certain holiday periods in the year. Additionally, certain health care, health-related professional services and general merchandise offerings are subject to seasonal fluctuations.

2.3 Financial Services Segment

President's Choice Bank ("PC Bank") offers financial services to consumers under the *President's Choice Financial* brand, including the *President's Choice Financial* Mastercard. PC Bank also offers guaranteed investment certificates through the broker channel.

In 2017, PC Bank entered into an agreement to end its business relationship with a major Canadian chartered bank, which resulted in the discontinuance of the personal banking services offered under the *President's Choice Financial* brand. The wind-down of operations was materially completed in May 2018. PC Bank continues to operate the *President's Choice Financial* Mastercard program through which customers continue to earn *PC Optimum* points. PC Bank remains committed to growth, by bringing innovative payment products to its customers and continuing to strengthen its credit card services and *PC Optimum* loyalty program.

Through its insurance entities, PC Bank offers products such as auto and home insurance. PC Bank also offers wireless products and services through *The Mobile Shop,* as well as prepaid cell phones and gift cards, through the Company's network of grocery stores located across the country.

2.3.1 Financial Services Competitive Environment

The Canadian credit card market is highly competitive. The credit cards offered by PC Bank compete with comparable products offered by banks and other financial institutions within Canada and are issued on terms and conditions that are competitive with such other products. As competition increases, customer expectations are being redefined, which includes an increasing demand for good value, exceptional service and programs that reward customers for their loyalty. The value proposition of being able to earn free groceries through the *PC Optimum* loyalty program by using a *President's Choice Financial* Mastercard is one of the key factors that enables PC Bank to compete with banks and other financial institutions offering comparable products. In September 2018, *President's Choice Financial* was recognized as #1 in the inaugural J.D. Power Canadian Credit Card Customer Satisfaction Study.

2.3.2 Lending

PC Bank has established a risk appetite for credit risk within certain escalation thresholds and PC Bank Board of Directors tolerance limits. PC Bank's risk appetite has been approved by its Board of Directors. PC Bank has in place 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 as well as other risks. To minimize the associated credit risk, PC Bank employs advanced credit scoring tools, stringent credit card portfolio monitoring, and technology that produces an effective account management and collection process.

2.4 Labour and Employment Matters

As at December 28, 2019, the Company, through its subsidiaries, franchisees and Associates, employed approximately 194,000 full-time and part-time employees. A majority of the Company's grocery store level and distribution centre colleagues are unionized.

2.5 Intellectual Property

The Company has established procedures to register or otherwise protect its intellectual property, including the trademarks used in its banner names and those associated with its loyalty program, credit card services, control brand programs, online and digital platforms and apparel business. Store-trading or banner names are associated with specific retail concepts and are important to corporate, franchised and Associate-owned drug store operations. The Company's trademarks used in connection with its control brand program are discussed elsewhere in this AIF. Other intellectual property of the Company includes domain names, packaging designs and product formulations and specifications. The intellectual property rights associated with and used in connection with the Company's business are important assets and are defended vigorously. When used in this AIF, trademarks owned or used by the Company and/or its affiliates are presented in italics.

2.6 Corporate Social Responsibility and Environmental Policies

The Company's approach to Corporate Social Responsibility ("CSR") is driven by its purpose - *Live Life Well.* By sourcing responsibly, respecting the environment and making a positive difference in the communities in which it operates, the Company aims to be a leading contributor to Canadian society both today and for generations to come.

The Company's CSR initiatives include the following:

<u>Sourcing Responsibly</u>

The Company strives to source its products in a responsible way, and has made significant strides in sourcing more products sustainably and ethically. The Company has identified a number of opportunities to have an impact through its supply chain, particularly in the context of offshore sourcing. Recent and ongoing initiatives in this area include:

- Vendor Code of Conduct - the Code commits the Company's vendors to behaviours and practices that reflect the Company's values and internal code of conduct.
- Working Conditions - the Company has developed a tailored process within its supply chain to help ensure the Company's international vendors adhere to local working standards for employees, providing them with safe and secure working conditions.
- Bangladesh Accord on Fire and Building Safety (the "Accord") - the Company has played a central role in the creation and development of the Accord, which has achieved significant positive results with regard to building and work safety in Bangladesh.
- Transparency - the Company continues to publicly disclose its contracted factory lists for apparel and footwear products. This transparency allows the Company to continue to strengthen its process and find ways to collaborate further.
- Local Sourcing - the Company takes pride in working with local farmers, fishermen and producers. More than 30% of the Company's annual produce purchases are from Canadian growers. During the peak growing season, approximately 50% of the Company's produce is Canadian grown. The Company's *PC Free From* poultry and pork is sourced exclusively from Canadian farmers.
- Cotton Sourcing - the Company has pledged not to use cotton sourced from Turkmenistan or Uzbekistan because of the use of child-labour during the autumn cotton harvest in such locations.
- Animal Welfare - starting in 2019, *Joe Fresh* banned the sourcing and use of mohair and angora in apparel production due to animal welfare concerns and the Company only sources veal from loose housing environments.
- Sustainable Commodities - the Company analyzes at-risk commodities and seeks to obtain third-party verification of sustainable agricultural practices for certain commodities, including seafood, cocoa, coffee, palm oil and beef.

<u>Respecting the Environment</u>

The Company aims to continue reducing the environmental impacts of its operations specifically in the areas of waste, electricity, transportation, refrigeration and packaging:

- In 2016, the Company announced a commitment to reduce its carbon footprint 20% by 2020 and 30% by 2030 relative to a 2011 baseline. The Company has an action plan focused on energy-efficient stores and distribution centres, fuel-efficient transportation, and managing refrigerant leaks and organic waste diversion. The Company intends to deliver carbon reduction in line with Canada's national targets and, along with other forward-looking Canadian companies, demonstrate that these goals can be achieved without sacrificing economic growth. By 2017, the Company had already met its 2020 target, having reduced its carbon emissions by 21.9% against its baseline. The Company continues to make good progress towards its goal of a 30% carbon reduction by 2030.
- A long-standing initiative that has had a significant impact is the Company's plastic bag reduction program. Charging consumers for plastic bags has led to the reduction of nearly 13 billion plastic bags in the Company's stores since the start of the program.
- The Company was one of the first members of the Circular Economy Leadership Coalition, whose members work with industry, non-governmental organizations, academics and government on the development and implementation of circular economy solutions aimed at eliminating waste.
- In 2019, the Company joined 18 other leading international companies to launch the One Planet Business for Biodiversity initiative. This program aims to leverage the scope and scale of the participating companies to meaningfully improve biodiversity around the world.

- While retail is a relatively small contributor to food waste volumes, the Company understands the impact it can have throughout the value chain and with consumers. That is why in 2018, the Company committed to reducing food waste by 50% by 2025. The Company is making important progress towards that goal, through reclamation, diversion and donation programs. The Company is one of Canada's largest food bank donors with over 11.5 million pounds of food donated in 2019. The Company has been partnering with Second Harvest for nearly 35 years, and with Food Banks Canada since 2009. More than 450 stores donate perishable food items to local food banks and food rescue organizations.
- In 2019, the Company announced a partnership with Flashfood in furtherance of its commitment to reduce store-generated food waste. The Flashfood program allows customers to purchase food items that are nearing their expiration date, at a reduced price of up to 50% off, at select stores. In 2019, the Company installed Flashfood cases in over 400 of its stores and as a result, has diverted more than 4.6 million pounds of food from landfills.
- In 2019, the Company announced a partnership with Loop[4] to bring innovative reusable packaging to the Canadian marketplace.

4 Trademark used under license.

Making a Positive Difference in Communities

The Company undertakes several charitable activities, which underpin the Company's community-oriented approach to CSR. The Company's principal charitable activities center on helping Canadian families *Live Life Well* by putting women's health first and tackling childhood hunger:

- *President's Choice* Children's Charity (the "Charity") has been tackling childhood hunger since 2008 and over that time has granted more than $70 million to schools and non-profits. As Canada's largest charitable funder of school meal programs and through new and existing partnerships, the Charity continues to feed and help teach children the importance of nutrition and how it affects their well-being, reaching over 700,000 Canadian children in 2019.
- The *LOVE YOU by Shoppers Drug Mart* program works together with local charities to help advance women's health in mind, body and spirit, and provides support systems to help put women's health first. Since 2011, more than $70 million has been raised and granted to support women's health initiatives in communities across Canada.
- Each of the Company's participating grocery stores is paired with a local food bank. These food banks are supported throughout the year, including through bi-annual food drives. In 2019, the Company contributed more than 2 million pounds of food and $3.2 million to foods banks across the country.
- In 2018, the Company raised and donated more than $77 million to charities and non-profits across Canada.

Live Life Well

The Company aims to help consumers live well and to enrich the communities in which it operates through the products and services it offers in-store, including:

- *PC Green* products, which the Company first made available to consumers in the 1980s;
- *PC Blue Menu* products, available since the 1990s;
- *PC Free From* line of antibiotic-use and hormone-use free animal proteins; and
- Reduced sugar and sodium in *President's Choice* products.

The Company publishes its CSR objectives and progress in meeting those objectives annually in a public document. The Company's CSR reports can be found at www.loblaw.ca.

3. GENERAL DEVELOPMENT OF THE BUSINESS – THREE YEAR HISTORY

3.1 Retail Segment

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

3.1.1 Information Technology Systems Implementation

The Company is building and deploying a new pharmacy dispensing and management system for the *Shoppers Drug Mart* pharmacy business and maintains e-Health compliance in three provinces. The Company continues to harmonize technology assets across the *Shoppers Drug Mart* divisions, including retail call center technologies, business intelligence systems, and human resource technologies.

In 2017, the Company commenced the roll-out of a new pharmacy dispensing and management system for the *Shoppers Drug Mart* pharmacy business that moves the operation to a paperless workflow. Rollout in Ontario was completed in 2018 and system optimization efforts continue. The system is now in 740 stores across four provinces, including Saskatchewan, New Brunswick, Nova Scotia and Ontario. In 2017, the Company also introduced an initiative to promote patient adherence to medication via refill reminders and digital refills. The roll out of this initiative continued over the course of 2018 and 2019, with roll-out now completed in the provinces of Alberta, Ontario, Nova Scotia and New Brunswick. Roll-out in Manitoba and British Columbia is expected to be completed in 2020.

Cyber crime continues to be a focus for the Company. In 2017, the Company commenced the execution of an extensive, revised and improved multi-year IT Security roadmap. Despite this, in 2017 its consumers were targeted by criminals through the *PC Plus* loyalty program. The intention of the targeted attack was to monetize the loyalty points the consumers had earned in stores and points earned using their *President's Choice Financial* Mastercard. The Company quickly mitigated the threat, with a focus on the consumer first. Further measures have been taken to ensure consumer information is protected and customers have been reimbursed for any stolen points.

In 2017, the Company applied added controls against its remaining digital properties, and although the Company witnessed attempts on certain other web properties of the Company, the controls in place quickly mitigated the risk to the Company's consumers and to the Company.

The Company continues to assess new cybersecurity threats and to deploy compensating controls as required to minimize risk as part of this ongoing program.

3.1.2 Strengthened Customer Proposition

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

In the last three years the Company has sought to reinforce competitive differentiation, including by:

- providing innovative control brand products to consumers, including *President's Choice* plant-based animal protein alternatives, *President's Choice* gluten-free, *President's Choice* Lactose-Free, *President's Choice Free From*, *PC Organics* and *PC Black Label Collection* product lines;
- introducing a pilot in the Greater Toronto and Hamilton Area to help Canadians solve the everyday dilemma: 'what's for dinner tonight';
- expanding and enhancing its multicultural control brand product lines, including *Rooster*, *Suraj*, *Sufra* and *T&T;*
- exploring new service opportunities, such as in-store medical clinics, optical departments, dietitians, expanded pharmacy offerings, and improved care coordination to meet the evolving needs of Canadian consumers;
- optimizing its general merchandise selection to better align with its core food offering;
- introducing value-added services, including the combination of its two loyalty programs creating the *PC Optimum* loyalty program completed on February 1, 2018;
- enhancing its product offering to a total of 140 stores in Ontario selling beer and/or wine products, in addition to 10 stores in British Columbia selling wine, 6 stores in Saskatchewan selling beer, wine and spirits and 29 stores in New Brunswick selling wine and beer;
- launching *Medical Cannabis by Shoppers*, an online platform for the purchase of medical cannabis;

- enhancing its channels of distribution, including by expanding its *PC Express* program to 700 pickup locations in every province and territory with the exception of Nunavut, allowing customers to shop online for their groceries and pick up their order at a site and time that is convenient for them;
- enhancing its prestige beauty offering by optimizing brand assortment and availability both online and across the Company's network of *BeautyBOUTIQUE* locations and utilizing the *PC Optimum* loyalty program (or prior to February 1, 2018, the *Shoppers Optimum/ Pharmaprix Optimum* loyalty program) for increased focus on personalized communication and service;
- opening two standalone Beauty Clinics offering specialized skin care products and cosmetic dermatology services, including botox injections, laser skin treatments, chemical peels, micro-needling, hair regeneration and eyelash enhancements;
- partnering with Instacart to deliver groceries directly to Canadian homes; and
- developing and launching new store concepts.

The Company has also taken measures to improve the experience at many of its retail grocery stores. Over the past three years, the Company has added 14 *Inspire* stores, based on the Company's flagship *Loblaws* store at Maple Leaf Gardens[5], bringing the total to 45. These stores aim to provide customers with an elevated shopping experience focused on innovative fresh food concepts, a breadth of assortment and food-focused customer service. In addition, the Company has increased the number of *Shoppers Drug Mart* stores with a *BeautyBOUTIQUE* to 436, which includes 25 enhanced-format *BeautyBOUTIQUE* locations.

In 2020, the Company plans to continue to invest in innovative products, services and channels in order to maintain its competitive position.

5 Registered TM Licensed Use.

3.1.3 Gas Bar Network

In the second quarter of 2017, the Company completed the sale of its gas bar operations and assets to Brookfield Business Partners L.P. for approximately $540 million.

3.2 Financial Services Segment

Since ending its relationship with a major Canadian chartered bank in 2017, which resulted in the discontinuance of the personal banking services offered under the *President's Choice Financial* brand, PC Bank has maintained its commitment to delivering exceptional value to customers through the *President's Choice Financial* Mastercard program.

3.2.1 President's Choice Financial Mastercard

Over the past three years, PC Bank has focused on expanding its *President's Choice Financial* Mastercard portfolio. During that period, PC Bank received approximately 1.83 million applications for its *President's Choice Financial* Mastercard and grew its active account base to approximately 2.0 million accounts. In order to support the continued growth of the business, PC Bank launched its new customer facing website for the *President's Choice Financial* Mastercard in 2018, providing customers with deeper insights while streamlining the application process. In 2019, PC Bank continued delivering on its commitment to the customer experience by launching the *PC Financial* mobile app for Apple and Android devices. While PC Bank is committed to continually improving its digital assets, it is also focused on leveraging its nationwide network of pavillions to engage and advise customers in-store.

In 2020, PC Bank will continue to focus on expanding its customer base and deepening the digitization of its businesses, as well as implementing actionable strategies to ensure long-term growth.

3.2.2 Mobile Phone Services

The Mobile Shop provides customers with the ability to purchase a range of mobile services from a full range of wireless carriers in convenient locations across the Company's grocery store network. As at December 28, 2019, *The Mobile Shop* was located in over 188 locations across the Company's grocery store network.

In 2020, PC Bank will continue to focus on delivering value and convenience to customers of *The Mobile Shop* through a more robust product offering and improved sales experience, while continuing to expand its service and rewards offerings, including through the *PC Optimum* loyalty program.

3.2.3 PC Insiders

PC Insiders is a fee-based subscription program tailored to the growing number of the Company's customers shopping both in its stores and online. For an annual or monthly subscription fee, members get extra *PC Optimum* points bonuses on Canada's top brands and family essentials, as well as free pick-up and delivery from the Company's nationwide e-commerce sites.

The program was originally launched in 2017 as a small invitation-only offer of exclusive rewards and e-commerce benefits for select *PC Optimum* members who were also *President's Choice Financial* Mastercard holders. In late 2018, the program was opened up to all *PC Optimum* loyalty members.

3.3 Choice Properties

On November 1, 2018, the Company and its parent Weston completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders (the "Reorganization"). In connection with the Reorganization, the holders of common shares of the Company, other than Weston and its subsidiaries, received 0.135 of a common share of Weston for each common share of the Company held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the date of announcement of the Reorganization, and Weston received the Company's approximate 61.6% effective interest in Choice Properties.

Following completion of the Reorganization, the Company no longer retains its interest in Choice Properties and Choice Properties is no longer an operating segment or a reportable segment of the Company. The Reorganization has had no impact on the ongoing operating relationship between the Company and Choice Properties and all current agreements and arrangements, including the Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant.

Additional information on Choice Properties can be found in the Annual Information Form of Choice Properties dated February 12, 2020, which is available at www.sedar.com or www.choicereit.ca.

4. RISKS

4.1 Enterprise Risks and Risk Management

The Company is committed to maintaining a framework that ensures risk management is an integral part of its activities. To ensure the continued growth and success of the Company, risks are identified and managed through the Company's Enterprise Risk Management ("ERM") program.

ERM Program

The ERM program assists all areas of the business in managing risks within appropriate levels of tolerance by bringing a systematic approach and methodology for evaluating, measuring and monitoring key risks. The results of the ERM program and other business planning processes are used to identify emerging risks to the Company, prioritize risk mitigation activities and develop a risk-based internal audit plan.

Risks are not eliminated through the ERM program, but rather, are identified and managed in line with the Company's risk appetite and within understood risk tolerances. The ERM program is designed to:

- facilitate effective corporate governance by providing a consolidated view of risks across the Company;
- enable the Company to focus on key risks that could impact its strategic objectives in order to reduce harm to financial performance through responsible risk management;
- ensure that the Company's risk appetite and tolerances are defined and understood;
- promote a culture of awareness of risk management and compliance within the Company;
- assist in developing consistent risk management methodologies and tools across the Company including methodologies for the identification, assessment, measurement and monitoring of risks; and
- anticipate and provide early warnings of risks through key risk indicators.

Risk Appetite and Governance

The Board of Directors of the Company ("Board") oversees the ERM program, including a review of the Company's risks and risk prioritization, and annual approval of the ERM policy and risk appetite framework. The risk appetite framework articulates key aspects of the Company's businesses, values, and brands and provides directional guidance on risk taking. Key risk indicators are used to monitor and report on risk performance and whether the Company is operating within its risk appetite. Risk owners are assigned relevant risks by the Board and are responsible for managing risk and implementing risk mitigation strategies.

ERM Framework

Risk identification and assessments are important elements of the Company's ERM process and framework. An annual ERM assessment is completed to assist in the update and identification of internal and external risks. This assessment is carried out in parallel with strategic planning through interviews, surveys and facilitated workshops with management and the Board to align stakeholder views. This assessment is completed for each business unit and aggregated where appropriate. Risks are assessed and evaluated based on the Company's vulnerability to the risk and the potential impact that the underlying risks would have on the Company's ability to execute its strategies and achieve its objectives and on the Company's financial performance.

Risk Monitoring and Reporting

On a quarterly basis, management provides an update to the Board (or a Committee of the Board) on the status of key risks based on significant changes from the prior update, anticipated impacts in future periods and significant changes in key risk indicators. In addition, the long-term (three-year) risk level is assessed to monitor potential long-term risk impacts, which may assist in risk mitigation planning activities.

Any of the key risks has the potential to negatively affect the Company and its financial performance. The Company has risk management strategies in place for key risks. However, there can be no assurance that the risks will be mitigated or will not materialize or that events or circumstances will not occur that could adversely affect the reputation, operations or financial condition or performance of the Company.

The following discussion of risks identifies significant factors that could have a material adverse effect on the Company's business, operations, financial condition or future financial performance. This information should be read in conjunction with the Company's Management's Discussion and Analysis ("MD&A") and the Consolidated Financial Statements and related notes. The following discussion of risks is not exhaustive, but is designed to highlight the key risks in the Company's business:

4.2 Operating Risks and Risk Management

Cybersecurity, Privacy and Data Breaches The Company depends on the uninterrupted operation of its IT systems, networks and services including internal and public internet sites, data hosting and processing facilities and cloud-based services and hardware, such as point-of-sale processing at stores, to operate its business.

In the ordinary course of business, the Company collects, processes, transmits and retains confidential, sensitive and personal information, including personal health and financial information ("Confidential Information") regarding the Company and its employees, franchisees, Associates, vendors, customers, patients, credit card holders and loyalty program members. Some of this Confidential Information is held and managed by third party service providers. As with other large companies, the Company is regularly subject to cyberattacks and such attempts are occurring more frequently, are constantly evolving in nature and are becoming more sophisticated.

The Company has implemented security measures, including employee training, monitoring and testing, maintenance of protective systems and contingency plans, to protect and to prevent unauthorized access of Confidential Information and to reduce the likelihood of disruptions to its IT systems. The Company continues to make strategic investments in this area, including employee training, in order to mitigate cyber threats. The Company also has security processes, protocols and standards that are applicable to its third party service providers.

Despite these measures, all of the Company's information systems, including its back-up systems and any third party service provider systems that it employs, are vulnerable to damage, interruption, disability or failures due to a variety of reasons, including physical theft, electronic theft, fire, power loss, computer and telecommunication failures or other catastrophic events, as well as from internal and external security breaches, denial of service attacks, viruses, worms and other known or unknown disruptive events.

The Company or its third party service providers may be unable to anticipate, timely identify or appropriately respond to one or more of the rapidly evolving and increasingly sophisticated means by which computer hackers, cyber terrorists and others may attempt to breach the Company's security measures or those of our third party service providers' information systems.

As cyber threats evolve and become more difficult to detect and successfully defend against, one or more cyber threats might defeat the Company's security measures or those of its third party service providers. Moreover, employee error or malfeasance, faulty password management or other irregularities may result in a breach of the Company's or its third party service providers' security measures, which could result in a breach of employee, franchisee, Associate, customer, credit card holder or loyalty program member privacy or Confidential Information.

If the Company does not allocate and effectively manage the resources necessary to build and sustain reliable IT infrastructure, fails to timely identify or appropriately respond to cybersecurity incidents, or the Company's or its third party service providers' information systems are damaged, destroyed, shut down, interrupted or cease to function properly, the Company's business could be disrupted and the Company could, among other things, be subject to: transaction errors; processing inefficiencies; the loss of or failure to attract new customers; the loss of revenue; the loss or unauthorized access to Confidential Information or other assets; the loss of or damage to intellectual property or trade secrets; damage to its reputation; litigation; regulatory enforcement actions; violation of privacy, security or other laws and regulations; and remediation costs. Any such occurrences could adversely affect the reputation, operations or financial performance of the Company.

Healthcare Reform The Company is reliant on prescription drug sales for a significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, including the potential implementation of a national pharmacare system, changes in the models used to fund prescription drugs such as the introduction of a pharmacare system, or non-compliance with these laws and regulations, could adversely affect the reputation, operations or financial performance of the Company.

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

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

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

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

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

Competitive Environment and Strategy The retail industry in Canada is highly competitive. The Company competes against a wide variety of retailers including supermarket and retail drug store operators, as well as mass merchandisers, warehouse clubs, online retailers, mail order prescription drug distributors, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drug and general merchandise. Others remain focused on supermarket-type merchandise. In addition, the Company is subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery and retail drug markets and those offering e-commerce retail platforms. The Company's loyalty program is a valuable offering to customers and provides a key differentiating marketing tool for the business. The marketing, promotional and other business activities related to the Company's loyalty program must be well managed and coordinated to preserve positive customer perception. The Company has made significant investments in support of certain strategic priorities. Failure to achieve these strategic priorities could adversely affect the Company's financial position and its ability to compete with competitors.

The Company's inability to effectively predict market activity, leverage customer preferences and spending patterns and respond in a timely manner to trends, or compete effectively with its current or future competitors could result in, among other things, reduced market share and reduced profitability. If the Company is ineffective in responding to consumer trends or in executing its strategic plans, its financial performance could be adversely affected. The failure to effectively respond to customer trends may adversely impact the Company's relationship with its customers. The Company closely monitors its competitors and their strategies, market developments and market share trends. Failure by the Company to sustain its competitive position could adversely affect the Company's financial performance.

Electronic Commerce and Disruptive Technologies The Company's e-commerce strategy is a growing business initiative. Customers expect innovative concepts and a positive customer experience, including a user-friendly website, certain websites and customer offerings that are integrated with the Company's loyalty program, reliable data, safe and reliable processing of payments and a well-executed merchandise pick up or delivery process. If systems are damaged or cease to function properly, capital investment may be required. The Company is also vulnerable to various additional uncertainties associated with e-commerce including website downtime and other technical failures, changes in applicable federal and provincial regulations, security breaches, and consumer privacy concerns. If these technology-based systems do not function effectively, the Company's ability to grow its e-commerce business could be adversely affected. The Company has increased its investment in improving the digital customer experience, but there can be no assurances that the Company will be able to recover the costs incurred to date.

The retail landscape is quickly changing due to the rise of the digitally influenced shopping experience and the emergence of disruptive technologies, such as digital payments, drones, driverless cars and robotics. In addition, the effect of increasing digital advances could have an impact on the physical space requirements of retail businesses. Although the importance of a retailer's physical presence has been demonstrated, the size requirements and locations may be subject to further disruption. Any failure to adapt the Company's business model to recognize and manage this shift in a timely manner could adversely affect the Company's operations or financial performance.

IT Systems Implementations and Data Management The Company continues to undertake investments in new IT systems to improve the operating effectiveness of the organization. Failure to successfully migrate from legacy systems to the new IT systems or a significant disruption in the Company's current IT systems during the implementation of new systems could result in a lack of accurate data to enable management to effectively manage day-to-day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses.

Failure to successfully adopt or implement appropriate processes to support the new IT systems, or failure to effectively leverage or convert data from one system to another, may preclude the Company from optimizing its overall performance and could result in inefficiencies and duplication in processes, which in turn could adversely affect the reputation, operations or financial performance of the Company. Failure to realize the anticipated strategic benefits including revenue growth, anticipated cost savings or operating efficiencies associated with the new IT systems could adversely affect the reputation, operations or financial performance of the Company.

The Company also depends on relevant and reliable information to operate its business. As the volume of data being generated and reported continues to increase across the Company, data accuracy, quality and governance are required for effective decision making. Failure by the Company to leverage data, including customer data, in a timely manner may adversely affect the Company's ability to execute its strategy and therefore its financial performance.

Governance, Change Management, Process and Efficiency Many initiatives are underway to reduce the complexity and cost of the Company's business operations, ensuring a low cost operating structure that allows for continued investments in the Company's strategic growth areas. These efforts include initiatives focused on improving processes and generating efficiencies across its administrative, store and distribution network infrastructures. The success of these initiatives is dependent on effective leadership and realizing intended benefits. Ineffective change management could result in a lack of integrated processes and procedures, unclear accountabilities and decision-making rights, decreased colleague engagement, ineffective communication and training or a lack of requisite knowledge. Any of the foregoing could disrupt operations, increase the risk of customer dissatisfaction, adversely affect the Company's reputation or financial performance or adversely affect the ability of the Company to implement and achieve its long-term strategic objectives.

Employee Attraction, Development and Succession Planning The Company's operations and continued growth are dependent on its ability to hire, retain and develop its leaders and other key personnel. Any failure to effectively attract talented and experienced colleagues and to establish adequate succession planning and retention strategies could result in a lack of requisite knowledge, skill and experience. This could erode the Company's competitive position or result in increased costs, competition for or high turn-over of colleagues. Any of the foregoing could negatively affect the Company's ability to operate its business, which in turn could adversely affect the Company's reputation, operations or financial performance.

Food, Drug, Product and Services Safety The Company's products may expose it to risks associated with product safety and defects and product handling in relation to the manufacturing, design, packaging and labeling, storage, distribution, and display of products. The Company cannot assure that active management of these risks, including maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems, will eliminate all the risks related to food and product safety. The Company could be adversely affected in the event of a significant outbreak of food-borne illness or food safety issues including food tampering or contamination. In addition, failure to trace or locate any contaminated or defective products could affect the Company's ability to be effective in a recall situation. The Company is also subject to risk associated with errors made through medication dispensing or errors related to patient services or consultation. The occurrence of such events or incidents, as well as the failure to maintain the cleanliness and health standards at store level, could result in harm to customers, negative publicity or could adversely affect the Company's brands, reputation, operations or financial performance.

Distribution and Supply Chain The Company's ability to satisfy its customers' demands and achieve its cost objectives depends on its ability to maintain key logistic and transport arrangements. The Company's distribution and supply chain could be negatively affected by unforeseen disruptions due to fire, severe weather conditions, natural disasters, or other catastrophic events, labour disagreements, or other shipping problems. The loss of or disruption to these types of arrangements could interrupt product supply, which in turn could adversely affect the assortment and product availability at store level. If not effectively managed or remedied, these events could negatively impact customer experience and the Company's ability to attract and retain customers, and could adversely affect the Company's operations or financial performance.

Legal Proceedings In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings. The proceedings may involve suppliers, customers, Associates, franchisees, regulators, tax authorities or other persons. The potential outcome of legal proceedings and claims is uncertain.

Please refer to the "Legal Proceedings" section on page 30 of this AIF for more information.

Inventory Management The Company is subject to risks associated with managing its inventory. Failure to successfully manage such risks could result in shortages of inventory, or excess or obsolete inventory which cannot be sold profitably or increases in levels of inventory shrink. Any of these outcomes could adversely affect the financial performance of the Company. Although the Company has implemented new IT systems, which are intended to provide increased visibility to integrated costing and sales information at store level, the Company's failure to effectively implement such new IT systems and applicable processes may increase the risks associated with managing inventory, including the risk that inaccurate inventory could result in inaccurate financial statements.

The Company's Retail segment is also examining its fundamental processes related to article lifecycle management, with the goal of making existing processes more efficient. This will impact existing workflow and system processes across procurement, supply chain and merchandising. Such simplification and efficiency processes are critical to the organization's ability to integrate towards longer term system solutions and achieve efficiencies across the Retail divisions. Any failure to effectively deliver this enterprise core solution could negatively impact the Company's operations or financial performance.

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

Economic Conditions The Company's revenues and profitability are impacted by consumer discretionary spending which is influenced by general economic conditions. These economic conditions could include high levels of unemployment and household debt, political uncertainty, fuel and energy costs, the impact of natural disasters or acts of terrorism, global viruses, changes in interest rates, inflation, tax, exchange rates and access to consumer credit. A number of these conditions impact consumer spending and, as a result, payment patterns could deteriorate or remain unpredictable due to global, national, regional or local economic volatility. Uncertain economic conditions may adversely impact demand for the Company's products and services which could adversely affect the Company's operations or financial performance.

Service Providers The Company has a wide range of key business relationships with third parties including vendors, suppliers, distributors and contractors. The Company relies on vendors, including offshore vendors in both mature and developing markets, to provide the Company with goods and services. Offshore sourcing increases certain risks to the Company, including risks associated with food safety and general merchandise product defects, non-compliance with ethical and safe business practices and inadequate supply of products. The Company has no direct influence over how vendors are managed. Negative events affecting vendors or inefficient, ineffective or incomplete vendor management strategies, policies and/or procedures could adversely impact the Company's reputation and impair the Company's ability to meet customer needs or control costs and quality, which could adversely affect the reputation, operations or financial performance of the Company.

The Company relies on service providers including transport carriers, logistic service providers and operators of warehouses and distribution facilities. Ineffective selection, contractual terms or relationship management could impact the Company's ability to source products (both national brand and control brand products), to have products available for customers, to market to customers or to operate efficiently and effectively. Disruption in services from suppliers could interrupt the delivery of merchandise to stores, which in turn could adversely affect the operations or financial performance of the Company.

PC Bank uses third party service providers to process credit card transactions, operate call centres and operationalize certain risk management strategies for the *President's Choice Financial* Mastercard. A significant disruption in the services provided by third party service providers could adversely affect the financial performance of PC Bank and the Company.

The Company has outsourced certain administrative functions of its business to service providers including account payments, payroll services, IT support, investment management and custodial relationships, and benefit plan administration. Any disruption in the services provided by these suppliers could adversely affect the return on these assets or liquidity of the Company.

Franchisee Relationships The Company has entered into agreements with third party franchisees that permit the franchisees to own and operate retail stores in accordance with prescribed procedures and standards. A substantial portion of the Company's revenues and earnings comes from amounts paid by franchisees in connection with their store operations and leased property. Franchisees are independent operators and their operations may be negatively affected by factors beyond the Company's control. If franchisees do not operate their stores in accordance with the Company's standards or otherwise in accordance with good business practices, franchisee fees and rent paid to the Company could be negatively affected, which in turn could adversely affect the Company's reputation, operations or financial performance. In addition, the Company's reputation could be harmed if a significant number of franchisees were to experience operational failures, health and safety exposures or were unable to pay the Company for products, fees or rent.

The Company's franchise system is also subject to franchise legislation enacted by a number of provinces. Any new legislation or failure to comply with existing legislation could adversely affect operations and could add administrative costs and burdens, any of which could affect the Company's relationship with its franchisees.

Supply chain or system changes by the Company could cause or be perceived to cause disruptions to franchised store operations and could result in negative effects on the financial performance of franchisees. Relationships with franchisees could pose significant risks if they are disrupted, which could adversely affect the reputation, operations or financial performance of the Company.

Associate-owned Drug Store Network and Relationships with Associates The success of the Company and the reputation of its brands are closely tied to the performance of the Shoppers Drug Mart Associate-owned drug stores. Accordingly, the Company relies on Associates to successfully operate, manage and execute retail programs and strategies at their respective drug store locations. Associates are independent business operators that have entered into agreements with the Company to own and operate retail stores in accordance with prescribed procedures and standards. The success of the operations and financial performance of their respective drug stores may be beyond the

Company's control. In addition, Associates are subject to franchise legislation. Disruptions to the Company's relationships with Shoppers Drug Mart Associate-owned drug stores or changes in legislation could negatively affect revenue from Associates, which in turn could adversely affect the reputation, operations or financial performance of the Company.

Regulatory Compliance The Company is subject to a wide variety of laws, regulations and orders across all countries in which it does business, including those laws involving product liability, labour and employment, anti-trust and competition, pharmacy, food safety, intellectual property, privacy, environmental and other matters. The Company is subject to taxation by various taxation authorities in Canada and a number of foreign jurisdictions. Changes to any of the laws, rules, regulations or policies applicable to the Company's business, including tax laws, minimum wage laws, and laws affecting the production, processing, preparation, distribution, packaging and labelling of food, pharmaceuticals and general merchandise products, could adversely affect the operations, financial condition or performance of the Company.

Failure by the Company to comply with applicable laws, regulations and orders could subject the Company to civil or regulatory actions, investigations or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could adversely affect reputation, operations or financial condition or performance of the Company. In the course of complying with changes to laws, the Company could incur significant costs. Changing laws or interpretations of such laws or enhanced enforcement of existing laws could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and ability to efficiently conduct business.

The Company is subject to tax audits from various tax authorities on an ongoing basis. As a result, from time to time, tax authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments.

The Company is subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework which includes a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0% and a total capital ratio of 8%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio and OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework. PC Bank would be assessed fines and other penalties for non-compliance with these and other regulations. In addition, failure by PC Bank to comply, understand, acknowledge and effectively respond to applicable regulations could result in regulatory intervention and reputational damage.

Please refer to the "Regulatory Actions" section on page 31 of this AIF for more information.

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

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

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

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

To combat climate change, federal and provincial carbon reduction targets and financial mechanisms to reduce carbon emissions are being considered and/or implemented, such as carbon taxes, carbon pricing and cap and trade. With each jurisdiction operating under different policies of climate change reform, the Company may require operational changes and/or incur significant financial costs to comply with the various reforms. Additionally, certain global climate change patterns (e.g. rising sea levels, changing rain fall) may impact sourcing of food and food ingredients. Any failure to adapt to the impacts of climate change could affect the Company's reputation, operations or financial performance.

Business Continuity The Company's ability to continue critical operations and processes could be negatively impacted by adverse events resulting from various incidents, including severe weather, work stoppages, prolonged IT systems failure, terrorist activity, power failures, border closures or a pandemic or other national or international catastrophe. The Company has business continuity plans in place to manage any such events. Despite this, ineffective contingency planning, business interruptions, crises or potential disasters could adversely affect the reputation, operations or financial performance of the Company.

Ethical Business Conduct The Company has a Code of Conduct that reflects the Company's long-standing commitment to high standards of ethical conduct and business practices. Any violation of law or failure to comply with the Company's policies, including the Code of Conduct, could adversely affect the Company's brands, reputation, operations or financial performance.

Social Reform Social reform movements are driven by those that seek change in business practices while bringing public awareness to issues through protests and/or media campaigns. Issues that relate to the Company's business include, but are not limited to, genetically modified organisms, pesticide use, animal welfare, local and ethical sourcing, chemicals in products, nutritional labelling and/or ingredients in products and human rights. Ineffective action or inaction to social reform matters pertaining to the retail food and/or drug industry could adversely affect the Company's reputation or financial performance.

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

Trademark and Brand Protection The Company's brands and other intellectual property are very important to its success and competitive position. The Company relies on a combination of trademarks, copyrights, trade secrets and other intellectual property rights to protect its brands and its control branded products. The Company depends on its continued ability to use its intellectual property in order to increase brand awareness and further develop brands and products. The Company has taken steps to protect certain of its intellectual property rights in Canada and elsewhere. However, the Company's proprietary rights could be challenged, circumvented, infringed, misappropriated or invalidated by third parties. There can be no assurance that the processes and resources invested by the Company to protect its intellectual property from third party infringement or misappropriation will be sufficient. The Company may be required to institute litigation to enforce its intellectual property rights.

At the same time, third parties may assert or prosecute infringement claims against the Company for its use of intellectual property allegedly owned by third parties. If the Company is unable to successfully defend against these claims, it could be liable to such third parties or the Company's intellectual property could be invalidated.

Any such litigation could result in substantial costs, diversion of resources and could negatively affect the Company's revenue, profitability and prospects regardless of whether it is successful in the litigation. A decrease in value of the Company's trademarks, banners or control brands as a result of adverse events, including third party infringement, could adversely affect the reputation, operations or financial performance of the Company.

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

Multi-Employer Pension Plans In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits to unionized employees pursuant to provisions of collective bargaining agreements. Approximately 28% of the employees of the Company, and of its franchisees and Associates, participate in these plans. These plans are administered by independent boards of trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company has a representative on the board of trustees of these plans. The Company's responsibility to make contributions to these plans is limited to the amounts established pursuant to its collective agreements; however, poor performance of these plans could have an adverse impact on the Company's employees and former employees who are members of these plans or could result in changes to the terms and conditions of participation in these plans, which in turn could adversely affect the financial performance of the Company.

The Company, together with its franchisees, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan, with approximately 55,000 employees as members.

4.3 Financial Risks and Risk Management

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

Discussion of Financial Risks

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

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

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

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

Interest Rates The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and from the refinancing of existing financial instruments. An increase in interest rates could adversely affect the operations or financial performance of the Company.

Further information on the Company's business can be found in the annual MD&A dated February 20, 2020. This information is incorporated herein by reference and is available at www.sedar.com or www.loblaw.ca.

5. CAPITAL STRUCTURE AND MARKET FOR SECURITIES

5.1 Share Capital

The Company's authorized share capital is comprised of common shares, First Preferred Shares, Second Preferred Shares, Series A, and Second Preferred Shares, Series B.

Common shares have voting rights of one vote per common share. The holders of common shares are entitled, subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Company, to receive any dividend declared by the Company and to receive the remaining property of the Company upon dissolution. As at December 28, 2019, there were 360,064,475 common shares issued and outstanding, a decrease of 11,726,492 common shares from December 29, 2018. There are an unlimited number of authorized common shares.

Options confer upon the holder the right to purchase one common share at a price specific to each option and described upon option issuance. Over the course of fiscal 2019, 2,359,592 options were exercised resulting in the corresponding issuance of 1,900,505 common shares and settlement in cash for 459,087 options. As at December 28, 2019, there were 6,317,922 options outstanding, a decrease of 1,191,709 options from December 31, 2018.

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

The Company is authorized to issue an unlimited number of Second Preferred Shares without nominal or par value, issuable in series. The Second Preferred Shares of each series, (i) shall rank after the First Preferred Shares to the extent that there is a conflict between the preferences, priorities and rights attaching to the two classes of preferred shares, and (ii) shall be entitled to preferences over the common shares and any other shares of the Company ranking junior to the Second Preferred Shares with respect to the priority in the payment of dividends and with respect to the priority in the distribution of assets of the Company in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs. The Second Preferred Shares of each series shall rank on a parity with the Second Preferred Shares of every other series with respect to priority in the payment of dividends and with respect to the priority in the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs. Holders of the Second Preferred Shares are not entitled to vote.

As at December 28, 2019, the Second Preferred Shares, Series B in the aggregate amount of $221 million, net of $4 million of after-tax issuance costs, are presented as a component of equity in the consolidated balance sheet.

Normal Course Issuer Bid

In the second quarter of 2019, the Company re-filed its Normal Course Issuer Bid ("NCIB") to purchase up to 18,455,884 common shares on the TSX or through alternative trading systems, representing approximately 5% of the issued and outstanding common shares as of the date on which the Company renewed its NCIB. In accordance with the rules and by-laws of the TSX, the Company may purchase its common shares at the market price of such shares.

In 2019, the Company executed share repurchases of 14,519,082 common shares (13,613,225 of which were canceled and 900,000 of which were placed into trusts for future settlement of the Company's restricted share unit (RSU) and performance share unit (PSU) obligations and 5,857 of which were purchased and settled for US employees and former directors) under its NCIB during the year.

From time to time, when the Company was not in possession of any material, non-public information about itself or its securities, the Company has entered into Automatic Share Purchase Plans with a broker in order to facilitate repurchases of the Company's common shares at times when the Company would not otherwise be active in the market due to its own internal blackout periods, insider trading rules or otherwise.

The Company intends to re-file its NCIB in 2020.

5.2 Share Trading Price and Volume

The Company's common shares and Second Preferred Shares, Series B are listed and posted for trading on the TSX and trade under the share symbols "L" and "L.PR.B", respectively. The monthly highs and lows and average daily volumes by month for the Company's common shares and Second Preferred Shares, Series B for the period beginning December 31, 2018 to December 28, 2019 were as follows:

Common Shares

Month	High ($ per share)	Low ($ per share)	Average Daily Volume by Month (shares)
January	$64.89	$60.24	627,810
February	$67.34	$63.01	508,311
March	$66.45	$64.27	607,767
April	$67.44	$64.60	416,215
May	$70.80	$64.16	640,686
June	$71.52	$66.35	585,512
July	$68.05	$65.12	374,348
August	$72.72	$67.51	520,508
September	$76.31	$71.26	615,003
October	$76.07	$68.80	538,026
November	$72.21	$68.49	533,225
December	$72.75	$67.23	494,623

Second Preferred Shares, Series B

Month	High ($ per share)	Low ($ per share)	Average Daily Volume by Month (shares)
January	$24.49	$23.75	2,794
February	$24.50	$23.84	3,053
March	$24.76	$24.07	8,452
April	$24.78	$24.39	5,801
May	$25.00	$24.60	2,315
June	$24.98	$24.48	7,523
July	$25.29	$24.65	17,216
August	$25.30	$25.05	5,565
September	$25.35	$25.11	2,429
October	$25.45	$25.17	3,339
November	$25.69	$25.30	6,336
December	$26.19	$25.33	3,416

5.3 Debt Securities

The Company's notes are not listed or quoted on a recognized exchange. As at December 28, 2019, there were $4.330 billion of the Company's notes outstanding.

All of the Company's notes are direct senior unsecured obligations of the Company and rank equally and ratably with one another and with all other unsecured and unsubordinated indebtedness of the Company. At its option, the Company may redeem the notes at any time, in whole or in part, on payment of a redemption price equal to the greater of (i) the applicable Canada Yield Price (as defined in the applicable supplemental indenture); and (ii) par, together in each case with accrued and unpaid interest to, but excluding, the date fixed for redemption. In addition, certain series of notes also provide the Company with certain "par call" rights to early redeem the applicable notes at par following certain prescribed dates. For full details of the provisions of the notes, readers should refer to the trust indenture dated April 10, 1996 between the Company and Montreal Trust Company of Canada, as amended, and the relevant supplemental indentures thereto, all of which are available on SEDAR at www.sedar.com.

Further information on the Company's debt securities can be found in the MD&A.

5.4 Credit Facilities

The Company has a $1.0 billion unsecured syndicated revolving credit facility agreement (the "Revolving Facility") which matures on June 10, 2021. The proceeds of the Revolving Facility are used for general corporate purposes. As at December 28, 2019, there were no drawings under the Revolving Facility. Under the Revolving Facility, the Company must maintain a ratio of net debt (as of the last day of each fiscal quarter) to EBITDA (earnings before interest, income taxes, depreciation and amortization calculated in the manner prescribed by the Revolving Facility agreement) for the last four quarters then ended of not more than 4.0:1, and a ratio of EBITDA to interest expense (subject to certain exclusions identified in the Revolving Facility agreement) for the last four quarters then ended of at least 2.75:1.

5.5 Credit Ratings

In the third quarter of 2019, S&P reaffirmed the credit ratings and outlook of the Company and its securities as part of an annual review.

In the third quarter of 2019, DBRS reaffirmed the credit ratings of the Company and its securities and changed the trends from stable to positive.

As at December 28, 2019, the credit ratings for the various classes of securities of the Company were as follows:

	Standard & Poor's		DBRS	
	Rating	Outlook	Rating	Trend
Issuer Credit Rating	BBB	Stable	BBB	Positive
Medium Term Notes	BBB	-	BBB	Positive
Other Notes and Debentures	BBB	-	BBB	Positive
Preferred Shares	P-3 (High)	-	Pfd-3	Positive

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

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

S&P

Issuer Credit Rating

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

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

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

Preferred Shares

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

Rating Outlook

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

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

DBRS

Issuer Credit Rating

DBRS corporate rating analysis begins with an evaluation of the fundamental creditworthiness of the issuer, taking into account its business and financial risks. Based on an analysis using the relevant methodologies, policies and procedures, DBRS assigns an issuer rating that indicates its assessment of the likelihood of default. Issuer ratings address the overall credit strength of the issuer. Unlike ratings on individual securities or classes of securities, issuer ratings are based on the entity itself and do not include consideration for security or ranking. Ratings that apply to actual securities (secured or unsecured) may be higher, lower or equal to the issuer rating for a given entity. DBRS typically assigns issuer ratings on a long-term basis using its long-term obligations rating scale.

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

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

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

Preferred Shares

DBRS' credit rating for preferred shares range from Pfd-1 to D. The Pfd-3 rating is ranked third of six rating categories. Preferred shares rated Pfd-3 are generally 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 issuers with a BBB category or higher issuer rating.

Rating Trends

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

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

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

6. DIVIDENDS

The Company has paid quarterly dividends on its common shares for over 50 years. The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth.

During the second quarter of 2019, the Board declared a 6.8% increase in the quarterly dividend, from $0.295 to $0.315 per common share, commencing with the quarterly dividend payable July 1, 2019. This increase followed a 9.3% increase in the quarterly dividend in the second quarter of 2018.

The Second Preferred Shares, Series B are 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 B entitle the holder to a fixed cumulative preferred cash dividend of $1.325 per share per annum which will, if declared, be payable quarterly.

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

	2019	2018	2017
Dividends declared per common share	$ 1.240	$ 1.155	$ 1.070
Dividends declared per Second Preferred Share, Series B	$ 1.325	$ 1.325	$ 1.325

In the fourth quarter of 2019, the Board declared a quarterly dividend of $0.315 per common share, payable on December 30, 2019 and subsequently paid on December 31, 2019 and a quarterly dividend of $0.331250 per Second Preferred Share, Series B paid on December 31, 2019.

7. DIRECTORS AND OFFICERS

The following list of directors and executive officers is current to February 20, 2020.

7.1 Directors

Name, Province and Country of Residence	Principal Occupation	Director Since
Galen G. Weston Ontario, Canada	Executive Chairman of Loblaw Companies Limited and Chairman and Chief Executive Officer of George Weston Limited	2006
Paul M. Beeston, C.M. [1] Ontario, Canada	Corporate Director	2005
Paviter S. Binning Ontario, Canada	President, Wittington Investments, Limited	2019
Scott B. Bonham [1,4] California, USA	Corporate Director	2016
Warren Bryant [2,4*] Arizona, United States	Corporate Director	2013
Christie J.B. Clark [1*,3, 4] Ontario, Canada	Corporate Director	2011
William A. Downe, C.M. [2*] Illinois, United States	Corporate Director	2018
Janice Fukakusa [1] Ontario, Canada	Corporate Director	2019
M. Marianne Harris [1, 3, 4] Ontario, Canada	Corporate Director	2016
Claudia Kotchka [2, 4] Florida, United States	Corporate Director	2016
Beth Pritchard [2, 4] Ohio, United States	Corporate Director	2014
Sarah Raiss [2,3*] Alberta, Canada	Corporate Director	2014

1. Audit Committee
2. Governance, Employee Development, Nominating and Compensation Committee
3. Pension Committee
4. Risk and Compliance Committee

* Chair of the Committee

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

7.2 Officers

Name, Province and Country of Residence	Principal Occupation
Galen G. Weston Ontario, Canada	Executive Chairman
Sarah R. Davis Ontario, Canada	President
Darren Myers Ontario, Canada	Chief Financial Officer
Robert Wiebe Ontario, Canada	Chief Administrative Officer
Garry Senecal Ontario, Canada	Chief Customer Officer
Gordon A.M. Currie Ontario, Canada	Executive Vice President, Chief Legal Officer and Secretary
Mark Wilson Ontario, Canada	Executive Vice President and Chief Human Resources Officer
Jeffery Leger Ontario, Canada	President, Shoppers Drug Mart
Barry K. Columb Ontario, Canada	President, President's Choice Financial
Jocyanne Bourdeau Quebec, Canada	President, Discount Division
Ian Freedman Ontario, Canada	President, Joe Fresh
Greg Ramier Ontario, Canada	President, Market Division
Nicholas Henn Ontario, Canada	Senior Vice President, General Counsel
Kevin Groh Ontario, Canada	Senior Vice President, Corporate Affairs and Communications

As at December 28, 2019, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control over 574,962 common shares, which represented approximately 16% of the outstanding common shares of the Company.

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. Scott B. Bonham, who was a Co-Founder of GGV Capital; Mr. William A. Downe, who was the Chief Executive Officer of BMO Financial Group; Ms. Janice Fukakusa who was the former Chief Financial Officer of Royal Bank of Canada; Mr. Darren Myers who was Executive Vice President and Chief Financial Officer of Celestica; and Mr. Nicholas Henn who was the Vice President, Head of Strategy and Mergers & Acquisitions of Direct Energy.

8. LEGAL PROCEEDINGS

In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings which could have a material adverse effect on the Company's reputation, operations or financial condition or performance. The following is a description of the Company's significant legal proceedings:

In 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in the fourth quarter of 2019 on the basis that a reliable estimate of liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved. As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Weston will not face criminal charges or penalties.

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including the Company and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia. In May 2019, two further opioid-related class actions were commenced in each of Ontario and Quebec against a large group of defendants, including Sanis Health Inc. The allegations in Ontario and Quebec are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that the May 2019 claims seek recovery of damages on behalf of opioid users directly. The Company believes these proceedings are without merit and is vigorously defending them. The Company does not currently have any significant accruals or provisions for these matters recorded in the consolidated financial statements.

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice ("Superior Court") against the Company and certain subsidiaries, Weston and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim sought approximately $2 billion in damages. In July 2017, the Superior Court dismissed the action and the plaintiffs appealed. The decision of the Ontario Court of Appeal, released December 20, 2018, upheld the Superior Court's dismissal of the action. In February 2019, the plaintiffs sought leave to appeal to the Supreme Court of Canada ("Supreme Court"), with such leave to appeal denied by the Supreme Court on August 8, 2019. The Company considers this matter closed as the Supreme Court's decision cannot be appealed.

Shoppers Drug Mart has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Superior Court by two licensed Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement, in the amount of $500 million. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who are parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Superior Court certified as a class proceeding portions of the action. The Superior Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class. The Company believes this proceeding is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements.

The Company has been reassessed by the Canada Revenue Agency ("CRA") and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited ("Glenhuron"), a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2017, are for the 2000 to 2012 taxation years. On September 7, 2018, the Tax Court of Canada ("Tax Court") released its decision relating to the 2000 to 2010 taxation years. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, the Company filed a Notice of Appeal with the Federal Court of Appeal. On October 15, 2019, the matter was heard by the Federal Court of Appeal, which reserved its judgement until a later date. Although the Company believes in the merits of its position, it recorded a charge during the third quarter of 2018 of $367 million, of which $176 million was recorded in interest and $191 million was recorded in income taxes. The Company believes that this provision will be sufficient to cover its ultimate liability if the appeal is unsuccessful. In the third quarter of 2018, the Company made a cash payment of $235 million to fund the tax and interest owing in light of the decision of the Tax Court.

9. REGULATORY ACTIONS

The following is a description of the Company's significant regulatory actions:

In 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. The Company and Weston have been cooperating with the Competition Bureau as an immunity applicant since March 2015 and will not face criminal charges or penalties. Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. Please refer to the "Legal Proceedings" section on page 30 of this AIF for more information.

10. MATERIAL CONTRACTS

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

10.1 Services Agreement

The Company has an agreement with Weston for Weston to provide certain administrative and professional services to the Company. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information systems, risk management, treasury, certain accounting and control functions and legal. Payments are made quarterly based on the actual costs of providing these services. Where such services are provided on a joint basis for the benefit of the Company and Weston, each party pays the appropriate portion of such costs. Net payments under this agreement in 2019 were $18 million. Fees paid under this agreement are reviewed each year by the Audit Committee.

11. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Related party transactions between the Company and Weston include inventory purchases, cost sharing agreements, real estate matters, borrowings and lendings, income tax matters, management agreements and administrative services agreements, including the Services Agreement noted above.

Related party transactions between the Company and Choice Properties include rental expenses and property management and administrative fees paid to Choice Properties.

Directors and executive officers do not have any material interest in any transaction that has, or is reasonably expected to have, a material effect on the Company.

It is the Company's policy to conduct all transactions and settle all balances with related parties on market terms and conditions.

Further information on related party transactions can be found on page 46 of the Company's 2019 MD&A.

12. TRANSFER AGENT AND REGISTRAR

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

13. EXPERTS

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

14. AUDIT COMMITTEE INFORMATION

The Mandate of the Audit Committee, as approved by the Board on February 19, 2020, is included in Appendix "A". The members of the Audit Committee are indicated in "Directors and Officers" section of this AIF. All members of the Audit Committee are independent and financially literate (as those terms are defined in National Instrument 52-110 - *Audit Committees* of the Canadian Securities Administrators) and have the following education and experience which is relevant to their roles as Audit Committee members:

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

Mr. Scott B. Bonham, B.Sc., M.B.A. is a Co-Founder of Intentional Capital LLC, a real estate asset management company, a former co-founder of GGV Capital, a venture capital firm and former Vice President, Capital Group Companies. Mr. Bonham holds an M.B.A. from Harvard Graduate School of Business and a B.Sc. (Honours) in electrical engineering from Queen's University.

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

Ms. Janice Fukakusa, F.C.P.A, F.C.A., M.B.A is the former Chief Financial Officer and Chief Administrative Officer of Royal Bank of Canada and currently serves on the boards of corporate and not-for-profit organizations, including chairing the Board of the Canada Infrastructure Bank as well as being the Chancellor of Ryerson University. Ms. Fukakusa holds a B.A. from the University of Toronto, an M.B.A from the Schulich School of Business and an Honorary Doctorate of Laws from York University.

Ms. M. Marianne Harris, B.Sc., M.B.A, J.D. is the former Managing Director and President, Corporate and Investment Banking for Merrill Lynch Canada Inc. and the former Head of Financial Institutions Group Americas, Merrill Lynch Pierce Fenner & Smith. Ms. Harris holds an M.B.A. from the Schulich School of Business, a J.D. (Juris Doctor) degree from Osgoode Hall Law School and a B.Sc. (Honours) from Queens University.

15. EXTERNAL AUDIT FEES

The following table sets forth the aggregate fees billed for professional services rendered by the independent external auditors, KPMG LLP, for the fiscal years 2019 and 2018, respectively:

	2019 ($000's)	2018 ($000's)
Audit fees(1)	**5,249**	5,526
Audit-related fees(2)	**515**	888
Tax-related fees(3)	**40**	129
All other fees(4)	**142**	234
Total Fees	**5,946**	6,777

(1) Audit fees include fees for services related to the audit of the Company's consolidated financial statements, including the audit of Shoppers Drug Mart and PC Bank (each a subsidiary of the Company). Audit fees also include fees for services related to the review of quarterly reports, the interpretation of accounting and financial reporting standards, auditor involvement with filings, such as prospectuses, and the acquisition of Canadian Real Estate Investment Trust by Choice Properties prior to the Reorganization in 2018.

(2) Audit-related fees include fees for French translation services associated with the Company's financial and regulatory filings, the audit of pension plans and for services rendered for certain special projects such as the Reorganization.

(3) Tax-related fees include fees for tax compliance services and advice and for services rendered for certain special projects.

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

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

16. ADDITIONAL INFORMATION

1. Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Company's Management Proxy Circular for the Annual Meeting of shareholders to be held on April 30, 2020. Additional financial information is also provided in the Company's consolidated financial statements and MD&A for its most recently completed financial year.

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

The Company's website is available at www.loblaw.ca.

Appendix "A"

Mandate of the Audit Committee

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;
- the management of those risks for which oversight has been delegated by the Board to the Audit Committee pursuant to the enterprise risk management program; and
- performing the additional duties set out in this Mandate or otherwise delegated to the Audit Committee by the Board.

2. MEMBERS

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

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

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

3. CHAIR

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

4. TENURE

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

5. QUORUM, REMOVAL AND VACANCIES

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

6. DUTIES

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

(a) Appointment and Review of Auditor

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

- select, evaluate and nominate the Auditor for appointment or reappointment by the shareholders;
- review the Auditor's engagement letter; and
- 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 ensure that the engagement partner/lead partners rotate when required or necessary.

(d) Pre-Approval of Non-Audit Services

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

(e) Communications with Auditor

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

- matters that will be referred to in the Auditor's management letter;
- whether or not the Auditor is satisfied with the quality and effectiveness of the financial reporting procedures and systems; and
- 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) Approval of Audit Plan

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

(g) Approval of Audit Fees

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

(h) Review of Annual Audited Financial Statements

The Audit Committee shall review the annual audited financial statements, together with the Auditor's report thereon, the related MD&A and any accompanying news releases, 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, MD&A and any accompanying news releases with management and the Auditor;
- consider the quality of, and not just the acceptability of, the accounting principles applied, the reasonableness of management's judgments and estimates that have a significant effect upon the financial statements, and the clarity of the disclosures in the financial statements;
- discuss with the Auditor its report which addresses:
  - all critical accounting policies and practices to be used;
  - all alternative treatments of financial information within GAAP that have been discussed with management of the Company, ramifications of the use of alternative disclosures and treatments, and the treatment preferred by the Auditor; and
  - other material written communication between the Auditor and management of the Company, such as any management letter or schedule of unadjusted differences;
- discuss any analyses prepared by management and the Auditor that set out significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP;
- discuss the effect of off-balance sheet transactions, arrangements, obligations (including contingent liabilities) and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Company's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses;
- consider any changes in accounting practices or policies and their impact on financial statements of the Company;
- discuss with management, the Auditor and, if necessary, legal counsel, any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position of the Company, and the manner in which these matters have been disclosed in the financial statements;
- discuss with management and the Auditor correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies;
- discuss with the Auditor any special audit steps taken in light of any material weaknesses in internal control;
- discuss with the Auditor any difficulties encountered in the course of the audit work, including any restrictions on the scope of their procedures and access to requested information, accounting adjustments proposed by the Auditor that were not applied (because they were immaterial or otherwise), and significant disagreements with management;
- consider any other matter which in its judgment should be taken into account in reaching its recommendation to the Board concerning the approval of the financial statements;
- satisfy itself that appropriate accounting policies and practices have been selected and applied consistently;
- satisfy itself that the internal audit function is performing satisfactorily in relation to the financial statements; 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, related MD&A and any accompanying news releases 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, the related MD&A and any accompanying news releases 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 Related 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 and approve the mandate and planned activities of Internal Audit Services annually. The Audit Committee shall also review the budget and organizational structure of Internal Audit Services. The Audit Committee shall ensure that Internal Audit Services 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 engagements of Internal Audit Services and the corresponding Management Action Plans are being completed in a timely and effective manner; and
- the integrity of the Company's internal control and management information systems are satisfactory.

(n) Relations with Management

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

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

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

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

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

(p) Legal Compliance

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

(q) Timely Disclosure, Confidentiality and Securities Trading Policy

The Committee shall monitor the effectiveness of the Company's policies addressing the timely disclosure of material information, the confidentiality of material undisclosed information and the prohibitions against trading in securities of the Company and other issuers while in possession of undisclosed information that is material to the Company or other such issuers.

(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.

(t) Fraud Control

The Committee shall oversee the Company's anti-fraud programs and controls, including its policies and procedures over fraud risk assessments and fraud risk management.

7. COMPLAINTS PROCEDURE

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

8. REPORTING

The Audit Committee shall report to the Board on:

- the Auditor's independence;
- the performance of the Auditor and the Audit Committee's recommendations regarding the reappointment or termination of the Auditor;
- the performance of the internal audit function;
- the design and operating effectiveness of the Company's internal control over financial reporting and disclosure controls and procedures;

- the Audit Committee's review of the annual and interim financial statements of the Company and any GAAP reconciliation, including any issues with respect to the quality or integrity of the financial statements, along with the MD&A, and shall recommend whether or not the Board should approve the financial statements and any GAAP reconciliation and the MD&A;
- the Audit Committee's review of the Annual Information Form;
- the Company's compliance with legal and regulatory matters to the extent they affect the financial statements of the Company;
- the management of those risks for which oversight has been delegated by the Board to the Audit Committee pursuant to the enterprise risk management program; and
- all other material matters dealt with by the Audit Committee.

9. REVIEW AND DISCLOSURE

This Mandate should be reviewed by the Audit Committee at least annually and be submitted to the Board for consideration and approval with such amendments as the Audit Committee proposes.

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

10. FREQUENCY OF MEETINGS AND IN CAMERA SESSIONS

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

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.