



Notice of Special Meeting of Shareholders of Shoppers Drug Mart Corporation and Management Proxy Circular

August 12, 2013

**The special meeting will be held at 11:00 a.m. (Toronto time) on
Thursday, September 12, 2013 at the Glenn Gould Studio,
CBC Building, 250 Front Street West,
Toronto, Ontario, Canada.**

Please read this document and the accompanying materials carefully. These materials are important and require your immediate attention. As a shareholder of Shoppers Drug Mart Corporation, you have the right to vote your shares, either by proxy or in person, on a special resolution regarding the proposed arrangement described herein with Loblaw Companies Limited. Your vote is important.

If you have any questions about these materials or the matters to which they refer, please contact your professional advisors.

If you have any questions or require further information about the procedures for voting or completing your letter of transmittal and election form, please contact Laurel Hill Advisory Group, our proxy solicitation agent, by telephone at 1-877-452-7184 toll-free in North America and at 416-304-0211 for collect calls outside of North America or by email at assistance@laurelhill.com.

YOUR VOTE IS IMPORTANT. PLEASE VOTE TODAY.



August 12, 2013

Dear Fellow Shareholder,

It is my pleasure to extend to you, on behalf of the board of directors of Shoppers Drug Mart Corporation (“**Shoppers Drug Mart**” or the “**Company**”), an invitation to attend a special meeting of the Company’s shareholders to be held at the Glenn Gould Studio, CBC Building, 250 Front Street West, Toronto, Ontario, Canada on September 12, 2013 at 11:00 a.m. (Toronto time).

At the meeting, you will be asked to consider and, if thought advisable, approve, with or without variation, a special resolution (the “**Arrangement Resolution**”) with respect to the arrangement pursuant to section 192 of the *Canada Business Corporations Act* (the “**Arrangement**”) involving, among other things, the acquisition by Loblaw Companies Limited (“**Loblaw**”) of all of the outstanding common shares of Shoppers Drug Mart (the “**Shoppers Drug Mart Shares**”) pursuant to an arrangement agreement dated July 14, 2013 between Shoppers Drug Mart and Loblaw.

Under the Arrangement, as more particularly described in the accompanying management proxy circular (the “**Circular**”), you can elect to receive at the effective time of the Arrangement either: (i) \$61.54 in cash (the “**Cash Consideration**”) or (ii) 1.29417 common shares of Loblaw (“**Loblaw Shares**”) plus \$0.01 in cash (the “**Share Consideration**”) for each Shoppers Drug Mart Share held, subject to pro-ration as set out in the plan of arrangement. See “The Arrangement — Elections, Pro-ration and Exchange Procedure” in the accompanying Circular.

Based on the closing price of the Loblaw Shares on the Toronto Stock Exchange on July 12, 2013, the last trading day before the Arrangement was announced, the Arrangement values the equity of Shoppers Drug Mart on a fully-diluted basis at approximately \$12.4 billion or \$61.54 per Shoppers Drug Mart Share. This represents a premium of approximately 29.4% over Shoppers Drug Mart’s 20-day volume-weighted average trading price as of July 12, 2013.

To become effective, the Arrangement Resolution must be approved by at least two-thirds of the votes cast at the meeting. The Arrangement also requires the approval of the Ontario Superior Court of Justice (Commercial List). In addition to shareholder and court approvals, the Arrangement is subject to compliance with the *Competition Act* (Canada) and certain other closing conditions customary in transactions of this nature.

George Weston Limited, which has voting ownership of approximately 63% of the Loblaw Shares, has entered into a voting agreement in support of the Arrangement.

The board of directors of Shoppers Drug Mart has unanimously determined that the Arrangement is in the best interests of the Company and has unanimously approved the Arrangement and recommends that you vote FOR the Arrangement Resolution. In making its recommendation, your board of directors considered a number of factors as described in the Circular under the heading “The Arrangement — Reasons for the Recommendations”, including the unanimous recommendation of a special committee of independent directors of the board of directors of the Company that was created for, among other things, the purposes of considering the Arrangement.

The Circular and the documents incorporated by reference therein contain a detailed description of the Arrangement and other information relating to Shoppers Drug Mart and Loblaw, including the Loblaw Shares. We urge you to consider carefully all of the information in the Circular and the documents incorporated by reference therein. If you require assistance, please consult your financial, legal or other professional advisors. If you have any questions with regard to the procedures for voting or completing your transmittal documentation, please contact Laurel Hill Advisory Group, our proxy solicitation agent, by telephone at 1-877-452-7184 toll-free in North America, 416-304-0211 collect calls outside of North America or by email at assistance@laurelhill.com.

This is an important matter affecting the future of the Company and your vote is important regardless of the number of Shoppers Drug Mart Shares you own. If you are unable to attend the meeting in person, we encourage you to vote by completing the enclosed form of proxy or, alternatively, by telephone, or over the internet, in each case in accordance with the enclosed instructions. Voting by proxy will not prevent you from voting in person if you attend the meeting and will ensure that your vote will be counted if you are unable to attend. A proxy will not be valid for use at the meeting unless the completed form of proxy is deposited at the offices of CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. at P.O. Box 721, Agincourt, Ontario M1S 0A1, in the enclosed envelope, by facsimile to (416) 368 -2502 or toll free to 1-866-781-3111 or by courier or hand delivery to CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc., 320 Bay Street, Banking Basement Level (B1), Toronto, Ontario M5H 4A6 or deposited via email at proxy@canstockta.com by 11:00 a.m. (Toronto time) on September 10, 2013 (or 11:00 a.m. (Toronto time) on the second last business day prior to any reconvened meeting in the event of an adjournment or postponement of the meeting).

We also encourage all registered Shoppers Drug Mart shareholders to complete and return the enclosed letter of transmittal and election form (“**Letter of Transmittal and Election Form**”), together with the certificate(s) representing your Shoppers Drug Mart Shares, to Equity Financial Trust Company (the “**Depositary**”) at the address specified in the Letter of Transmittal and Election Form. The Letter of Transmittal and Election Form contains procedural information relating to the Arrangement and should be reviewed carefully. We recommend that you complete, sign and return the Letter of Transmittal and Election Form with your Shoppers Drug Mart Share certificate(s) to the Depositary as soon as possible. **To make a valid election as to the form of consideration that you wish to receive under the Arrangement, you must sign and return, if applicable, the Letter of Transmittal and Election Form and make a proper election thereunder and return it with accompanying Shoppers Drug Mart Share certificate(s) to the Depositary prior to the election deadline, being 5:00 p.m. (Toronto time) on the business day which is two (2) business days preceding the date of the certificate of arrangement giving effect to the Arrangement (the “Election Deadline”). Loblaw will provide at least three (3) days’ notice of the Election Deadline to Shoppers Drug Mart Shareholders by means of a news release disseminated on newswire.** If you fail to make a proper election prior to the Election Deadline, or if the Depositary determines that your election was not properly made with respect to your Shoppers Drug Mart Shares, you will be deemed to have elected to receive the Cash Consideration as to 53.9% of the Shoppers Drug Mart Shares you hold and the Share Consideration as to 46.1% of the Shoppers Drug Mart Shares you hold, subject to pro-ration.

If you are a non-registered holder of Shoppers Drug Mart Shares and have received these materials through your broker, investment dealer or other intermediary, you will not receive a form of proxy or Letter of Transmittal and Election Form. Please follow the instructions provided by such broker, investment dealer or other intermediary to ensure that your vote is counted at the meeting and for instructions and assistance in delivering the share certificate(s) representing your Shoppers Drug Mart Shares and, if applicable, making an election with respect to the form of consideration you wish to receive. See “General Information Concerning the Meeting and Voting — Voting of Shoppers Drug Mart Shares Beneficially Owned by Non-Registered Shareholders” in the accompanying Circular.

Subject to obtaining court and other approvals, and the satisfaction or waiver of all other conditions precedent to the Arrangement, if the Company's shareholders approve the Arrangement Resolution, it is anticipated that the Arrangement will be completed before the end of the first quarter of 2014.

Thank you for your ongoing support as we prepare to take part in this important event in the history of Shoppers Drug Mart.

Yours truly,

"Holger Kluge"

Holger Kluge
Chair of the Board of Directors



SHOPPERS DRUG MART CORPORATION

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that, pursuant to an order of the Ontario Superior Court of Justice (Commercial List) dated August 12, 2013 (the “**Interim Order**”), a special meeting (the “**Meeting**”) of shareholders (“**Shoppers Drug Mart Shareholders**”) of Shoppers Drug Mart Corporation (“**Shoppers Drug Mart**”) will be held at the Glenn Gould Studio, CBC Building, 250 Front Street West, Toronto, Ontario, Canada on September 12, 2013 at 11:00 a.m. (Toronto time) for the following purposes:

1. to consider and, if thought advisable, to pass a special resolution (the “**Arrangement Resolution**”), the full text of which is set forth in Appendix C to the accompanying management proxy circular (the “**Circular**”), approving an arrangement (the “**Arrangement**”) pursuant to section 192 of the *Canada Business Corporations Act*, as amended (the “**CBCA**”), all as more particularly described in the Circular, which resolution, to be effective, must be passed by an affirmative vote of at least two-thirds of the votes cast at the Meeting in person or by proxy by Shoppers Drug Mart Shareholders; and
2. to transact such further and other business as may properly be brought before the Meeting or any postponement or adjournment thereof.

Specific details of the matters proposed to be put before the Meeting are set forth in the Circular which accompanies this Notice of Special Meeting.

The record date for determining the Shoppers Drug Mart Shareholders entitled to receive notice of and vote at the Meeting is the close of business on August 12, 2013 (the “**Record Date**”). Only Shoppers Drug Mart Shareholders whose names have been entered in the register of Shoppers Drug Mart Shareholders as of the close of business on the Record Date are entitled to receive notice of and to vote at the Meeting.

Whether or not you are able to attend the Meeting in person, you are encouraged to provide voting instructions in accordance with the instructions on the enclosed form of proxy or voting instruction form provided to you by your broker, investment dealer or other intermediary as soon as possible. To be included at the Meeting, your voting instructions must be received by CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc., at 320 Bay Street, Banking Basement Level (B1), Toronto, Ontario M5H 4A6 by 11:00 a.m. (Toronto time) on Tuesday, September 10, 2013, (or 11:00 a.m. (Toronto time) on the second last business day prior to any reconvened Meeting in the event of an adjournment of the Meeting). Please note that any voting instruction form provided to you by your broker, investment dealer or other intermediary may require that you submit such voting instruction form at an earlier time in accordance with the instructions therein. Shoppers Drug Mart reserves the right to accept late proxies and to waive the proxy cut-off, with or without notice, but is under no obligation to accept or reject any particular late proxy. If you received a voting instruction form, you hold your shares through a broker, investment dealer or other intermediary and must provide your instructions as specified

in the voting instruction form in sufficient time for the broker, investment dealer or other intermediary to act on them prior to that deadline.

Shoppers Drug Mart Shareholders who are planning to return the form of proxy or voting instruction form are encouraged to review the Circular carefully before submitting such form.

Pursuant to the Interim Order, registered Shoppers Drug Mart Shareholders have been granted the right to dissent in respect of the Arrangement Resolution. If the Arrangement becomes effective, a registered Shoppers Drug Mart Shareholder who dissents in respect of the Arrangement Resolution (each a **“Dissenting Shoppers Drug Mart Shareholder”**) is entitled to be paid the fair value of such Dissenting Shoppers Drug Mart Shareholder’s shares, provided that such Dissenting Shoppers Drug Mart Shareholder has delivered a written objection to the Arrangement Resolution to Shoppers Drug Mart not later than 5:00 p.m. (Toronto time) on September 10, 2013, being two (2) business days preceding the Meeting (or, if the Meeting is postponed or adjourned, two (2) business days preceding the date of the postponed or adjourned Meeting) and has otherwise complied strictly with the dissent procedures described in the Circular, including the relevant provisions of section 190 of the CBCA, as modified by the Interim Order. Beneficial owners of common shares in the capital of Shoppers Drug Mart (the **“Shoppers Drug Mart Shares”**) registered in the name of a broker, investment dealer or other intermediary who wish to dissent should be aware that only registered owners of Shoppers Drug Mart Shares are entitled to dissent. **Failure to comply strictly with the dissent procedures described in the Circular may result in the loss of any right of dissent.** These rights are described in detail in the accompanying Circular under the heading “Rights of Dissenting Shoppers Drug Mart Shareholders”. The text of section 190 of the CBCA, which will be relevant in any dissent proceeding, is set forth in Appendix I to this Circular.

If you have any questions, please feel free to contact Laurel Hill Advisory Group by telephone at 1-877-452-7184 toll-free in North America, 416-304-0211 collect calls outside of North America or by email at assistance@laurelhill.com.

DATED at Toronto, Ontario, this 12th day of August, 2013.

By Order of the Board of Directors,

“Adam Grabowski”

Adam Grabowski
Vice President, Legal Affairs & Secretary

TABLE OF CONTENTS

INTRODUCTION	1	SOLICITATION OF PROXIES	24
DEFINED TERMS	2	VOTING BY PROXIES – REGISTERED VOTERS	24
REPORTING CURRENCY AND FINANCIAL INFORMATION	2	REVOCABILITY OF PROXIES	25
FORWARD-LOOKING STATEMENTS	2	VOTING OF SHOPPERS DRUG MART SHARES BENEFICIALLY OWNED BY NON-REGISTERED SHAREHOLDERS	26
NOTICE TO SHOPPERS DRUG MART SHAREHOLDERS IN THE UNITED STATES	4	QUORUM	26
SUMMARY	6	PRINCIPAL HOLDERS OF SHOPPERS DRUG MART SHARES	27
Purpose of the Meeting.....	6	THE ARRANGEMENT	27
Date, Time and Place.....	6	BACKGROUND TO THE ARRANGEMENT	27
Record Date.....	6	RECOMMENDATION OF THE SPECIAL COMMITTEE.....	32
Background to the Arrangement.....	6	RECOMMENDATION OF THE SHOPPERS DRUG MART BOARD.....	33
Shoppers Drug Mart Shareholder Approval	6	REASONS FOR THE RECOMMENDATIONS.....	33
Effects of the Arrangement.....	6	RBC CAPITAL MARKETS FAIRNESS OPINION.....	36
Description of the Arrangement	7	DESCRIPTION OF THE ARRANGEMENT.....	36
Shoppers Drug Mart.....	8	PROCEDURE FOR THE ARRANGEMENT TO BECOME EFFECTIVE.....	38
Loblaw.....	8	SHOPPERS DRUG MART SHAREHOLDER APPROVAL	38
Recommendation of the Special Committee.....	8	LOBLAW SHAREHOLDER APPROVAL.....	38
Recommendation of the Shoppers Drug Mart Board.....	9	GWL VOTING AGREEMENT.....	38
Reasons for the Recommendation of the Shoppers Drug Mart Board	9	FINANCING THE TRANSACTION.....	40
RBC Capital Markets Fairness Opinion	12	COURT APPROVAL AND COMPLETION OF THE ARRANGEMENT	40
Letter of Transmittal and Election Form	12	LETTER OF TRANSMITTAL AND ELECTION FORM.....	41
Pro-ration and Election Procedure.....	12	ELECTIONS, PRO-RATION AND EXCHANGE PROCEDURE.....	42
Fractional Shares	14	Available Elections and Procedure	42
The Arrangement Agreement	14	Pro-ration	42
Procedure for the Arrangement to Become Effective	14	Exchange Procedure.....	43
Court Approval and Completion of the Arrangement.....	15	Tax Elections	44
Treatment of the Shoppers Drug Mart Options	15	No Fractional Shares and Rounding of Cash Consideration	44
Treatment of the Shoppers Drug Mart Share Awards.....	16	Lost Certificates.....	45
Dissent Rights.....	16	Cancellation of Rights after Six Years	45
Stock Exchange Listing and Reporting Issuer Status	16	Withholding Rights.....	45
Certain Canadian Federal Income Tax Considerations....	17	Non-Registered Shareholders.....	45
Risk Factors.....	17	TREATMENT OF SHOPPERS DRUG MART COMPENSATION PLANS.....	46
United States Securities Law Matters.....	17		
QUESTIONS AND ANSWERS ABOUT THE MEETING AND THE ARRANGEMENT	18		
GENERAL INFORMATION CONCERNING THE MEETING AND VOTING	24		
DATE, TIME AND PLACE.....	24		
RECORD DATE	24		

Options	46	DESCRIPTION OF THE BUSINESS OF THE COMBINED COMPANY	56
Share Awards	46	Increased Scale.....	57
STOCK EXCHANGE LISTING AND REPORTING ISSUER STATUS	46	Significant Benefits from Synergies.....	57
INTERESTS OF CERTAIN PARTIES IN THE ARRANGEMENT	47	Complementary Assets	57
Ownership of Options, RSUs and DSUs	47	Enhanced Assortment and Distribution.....	57
Termination and Change of Control Benefits	47	Unrivalled Private Label Brands.....	58
Loblaw Board of Directors	47	Experienced Leadership.....	58
Insurance and Indemnification of Directors and Officers	47	Strong Financial Position	58
DEPOSITARY	48	Increased Market Liquidity	58
INFORMATION RELATING TO SHOPPERS DRUG MART.....	48	SHARES TO BE ISSUED UNDER THE ARRANGEMENT	58
INFORMATION RESPECTING DIRECTORS AND OFFICERS	48	PRINCIPAL HOLDER OF LOBLAW SHARES.....	59
TRADING PRICE AND VOLUME OF SHOPPERS DRUG MART SHARES.....	49	THE ARRANGEMENT AGREEMENT	59
PRIOR SALES	50	REPRESENTATIONS AND WARRANTIES	59
Shoppers Drug Mart Options Granted Within the Last 12 Months.....	50	CONDITIONS PRECEDENT TO THE ARRANGEMENT	60
Shoppers Drug Mart Shares Issued on the Exercise of Shoppers Drug Mart Options Within the Last 12 Months	50	Mutual Conditions	60
AVAILABLE INFORMATION	50	Additional Conditions in Favour of Shoppers Drug Mart	61
RISK FACTORS	50	Additional Conditions in Favour of Loblaw	61
SHOPPERS DRUG MART DOCUMENTS INCORPORATED BY REFERENCE	50	COVENANTS	62
INFORMATION RELATING TO LOBLAW.....	52	General.....	62
OVERVIEW.....	52	Loblaw Financing	62
DESCRIPTION OF LOBLAW SHARES	53	Loblaw Board of Directors.....	63
Principal Holder of Loblaw Shares.....	53	Loblaw Supplemental Listing Application.....	63
TRADING PRICE AND VOLUME OF LOBLAW SHARES.....	53	Competition Act Matters.....	63
PRIOR SALES	54	Shoppers Drug Mart Non-Solicitation	64
Loblaw Shares Issued Within the Last 12 Months (Other Than Those Issued on Exercise of Loblaw Options)	54	TERMINATION OF THE ARRANGEMENT AGREEMENT.....	65
Loblaw Options Granted Within the Last 12 Months.....	54	Termination Payment.....	66
Loblaw Shares Issued on the Exercise of Loblaw Options Within the Last 12 Months.....	54	Shoppers Drug Mart Expense Payment.....	67
AVAILABLE INFORMATION	54	Loblaw Expense Payment	67
RISK FACTORS	54	AMENDMENT	68
LOBLAW DOCUMENTS INCORPORATED BY REFERENCE	54	REGULATORY MATTERS.....	68
INFORMATION RELATING TO THE COMBINED COMPANY.....	55	CANADIAN SECURITIES LAW MATTERS	68
ANTICIPATED CORPORATE STRUCTURE	55	U.S. SECURITIES LAW MATTERS	68
		Status Under U.S. Federal Securities Laws.....	68
		Exemption Relied Upon from the Registration Requirements of the 1933 Act.....	68
		Resale of Loblaw Shares Within the United States.....	69
		State “Blue Sky” Securities Laws	69
		COMPETITION ACT APPROVAL.....	69
		TSX APPROVALS.....	70

<i>CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS</i>	70	<i>INTERESTS OF EXPERTS OF SHOPPERS DRUG MART AND LOBLAW</i>	81
HOLDERS RESIDENT IN CANADA	71	NAME OF EXPERTS	81
Non-Rollover Transaction	71	<i>ADDITIONAL INFORMATION</i>	81
Rollover Transaction	71	ADDITIONAL INFORMATION	81
Dividends on Loblaw Shares	72	DIRECTORS' APPROVAL	82
Disposition of Loblaw Shares.....	73	<i>CONSENT OF RBC CAPITAL MARKETS</i>	83
Taxation of Capital Gains and Capital Losses	73	<i>APPENDIX A GLOSSARY OF DEFINED TERMS</i>	A-1
Dissenting Shoppers Drug Mart Shareholders.....	73	<i>APPENDIX B UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS OF LOBLAW</i>	B-1
Eligibility of Loblaw Shares for Investment.....	73	<i>APPENDIX C FORM OF SHOPPERS DRUG MART ARRANGEMENT RESOLUTION</i>	C-1
HOLDERS NOT RESIDENT IN CANADA	74	<i>APPENDIX D ARRANGEMENT AGREEMENT</i>	D-1
Disposition of Shoppers Drug Mart Shares	74	<i>APPENDIX E PLAN OF ARRANGEMENT</i>	E-1
Dividends on Loblaw Shares	74	<i>APPENDIX F APPLICATION FOR FINAL ORDER</i>	F-1
Disposition of Loblaw Shares.....	74	<i>APPENDIX G INTERIM ORDER</i>	G-1
Dissenting Non-Resident Holders	74	<i>APPENDIX H RBC CAPITAL MARKETS FAIRNESS OPINION</i>	H-1
Taxable Canadian Property	75	<i>APPENDIX I SECTION 190 OF THE CANADA BUSINESS CORPORATIONS ACT</i>	I-1
<i>RISKS RELATING TO THE ARRANGEMENT AND THE COMBINED COMPANY</i>	75		
<i>RIGHTS OF DISSENTING SHOPPERS DRUG MART SHAREHOLDERS</i>	78		
<i>INTERESTS OF INFORMED PEOPLE IN MATERIAL TRANSACTIONS</i>	81		



Management Proxy Circular

INTRODUCTION

This Circular is delivered in connection with the solicitation of proxies by and on behalf of management for use at the Meeting and any adjournment or postponement thereof. Shoppers Drug Mart has not authorized any Person to give any information or to make any representation in connection with the Arrangement or any other matters to be considered at the Meeting other than those contained in this Circular. If any such information or representation is given or made to you, you should not rely on it as having been authorized or as being accurate. For greater certainty, to the extent that any information provided on Shoppers Drug Mart's website or by Shoppers Drug Mart's proxy solicitation agent is inconsistent with this Circular, you should rely on the information provided in this Circular.

This Circular does not constitute an offer to buy, or a solicitation of an offer to sell, any securities, or the solicitation of a proxy, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such an offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or solicitation.

Shoppers Drug Mart Shareholders should not construe the contents of this Circular as legal, tax or financial advice and should consult with their own legal, tax, financial or other professional advisors.

The information concerning Loblaw incorporated by reference or contained in this Circular has been publicly filed or provided by Loblaw. Although Shoppers Drug Mart has no knowledge that would indicate that any statements contained herein taken from or based upon such documents, records or sources are untrue or incomplete, Shoppers Drug Mart does not assume any responsibility for the accuracy or completeness of the information taken from or based upon such documents, records or sources, or for any failure by Loblaw, any of its affiliates or any of their respective Representatives to disclose events which may have occurred or may affect the significance or accuracy of any such information but which are unknown to Shoppers Drug Mart. In accordance with the Arrangement Agreement, Loblaw provided Shoppers Drug Mart with all necessary information concerning Loblaw that is required by law to be included in this Circular and ensured that such information does not contain any misrepresentations (as such term is defined in the Arrangement Agreement).

All summaries of, and references to, the Arrangement Agreement and the Plan of Arrangement in this Circular are qualified in their entirety by, in the case of the Arrangement Agreement, the complete text of the Arrangement Agreement, a copy of which is attached at Appendix D and available on SEDAR at www.sedar.com, and in the case of the Plan of Arrangement, the complete text of the Plan of Arrangement, a copy of which is attached at Appendix E. You are urged to read carefully the full text of the Plan of Arrangement and the Arrangement Agreement.

Information contained in this Circular is given as of August 12, 2013, unless otherwise stated.

DEFINED TERMS

This Circular contains defined terms. For a list of the defined terms used herein and the meanings given to them, see Appendix A to this Circular.

REPORTING CURRENCY AND FINANCIAL INFORMATION

Except as otherwise indicated in this Circular, references to “dollars” and “\$” are to the currency of Canada.

All financial statements and financial data derived therefrom included or incorporated by reference in this Circular pertaining to Shoppers Drug Mart have been prepared in accordance with GAAP and all financial statements and financial data derived therefrom included or incorporated by reference in this Circular pertaining to Loblaw, including the unaudited pro forma condensed combined financial statements of Loblaw, have been prepared and presented in accordance with GAAP.

This circular contains references to non-GAAP financial measures, such as EBITDA and free cash flow. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and, therefore, may not be comparable to similarly titled measures presented by other reporting issuers.

Pro forma financial information included in this Circular is for informational purposes only and is unaudited. All unaudited pro forma financial information contained in this Circular has been derived from underlying financial statements prepared in accordance with GAAP to illustrate the effect of the Arrangement. The pro forma financial information set forth in this Circular should not be considered to be what the actual financial position or other results of operations would have necessarily been had Loblaw and Shoppers Drug Mart operated as a single combined company as, at, or for the periods stated.

FORWARD-LOOKING STATEMENTS

Certain statements in this Circular, including the documents incorporated by reference herein, are forward-looking statements. Forward-looking statements are provided for the purpose of presenting information about management’s current expectations and plans relating to the future, and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of Shoppers Drug Mart, Loblaw or the Combined Company. 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. Forward-looking statements reflect current estimates, beliefs and assumptions, which are based on Loblaw’s and Shoppers Drug Mart’s perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. Loblaw’s and Shoppers Drug Mart’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. Loblaw and Shoppers Drug Mart can give no assurance that such estimates, beliefs and assumptions will prove to be correct. In particular, certain statements included in the sections entitled “The Arrangement — Reasons for the Recommendations” and “Information Related to the Combined Company” are forward-looking statements.

This Circular, including the documents incorporated by reference herein, contains forward-looking statements concerning: the Combined Company’s financial position, cash flow and growth prospects, including, but not limited to, statements relating to the accretive nature of the transaction and ability of the Combined Company to deliver long-term growth; certain strategic benefits, and operational, competitive and cost synergies, including, but not limited to, statements relating to the \$300 million of expected synergies; management of the Combined Company; the timing of the Meeting; the expected completion date of the Arrangement; the anticipated tax treatment of the Arrangement for Shoppers Drug Mart Shareholders; and Loblaw’s and Shoppers Drug Mart’s anticipated future results. Numerous risks and uncertainties could cause the Combined Company’s actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies from the Combined Company’s major initiatives, including those from restructuring; failure to realize benefits from investments in the Combined Company’s IT systems, including the Combined Company’s IT systems implementation, or unanticipated results from these initiatives; the inability of the Combined Company’s IT infrastructure to support the requirements of the Combined Company’s business; heightened competition, whether from current competitors or new entrants to the marketplace, changes in economic conditions including the rate of inflation or deflation, changes in interest and currency exchange rates and derivative and commodity prices; public health events including those related to food safety; failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages; failure to attract and retain key employees and pharmacists or effectively manage succession planning; risks associated with the performance of the Combined Company’s associate-owned or franchised store network; the inability of the Combined Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink; the impact of potential environmental liabilities; failure to respond to changes in consumer tastes and buying patterns; reliance on the performance and retention of third-party service providers including those associated with the Combined Company’s supply chain and apparel business; supply and quality control issues with vendors; other disruptions to the Combined Company’s distribution operations or supply chain; damage to the reputation of brands promoted by the Combined Company, or to the reputation of any supplier or manufacturer of these brands; product quality and product safety risks which could expose the Combined Company to product liability claims and negative publicity; new, or changes to current, federal and provincial laws, rules and regulations, including pharmacy reimbursement programs, prescription drug pricing and the availability of manufacturer allowances, or changes to such laws and regulations that increase compliance costs; the risk that the Combined Company will be unable to implement successful strategies to manage the impact of the drug system reform initiatives implemented or proposed in most provincial jurisdictions; risks associated with alternative arrangements for sourcing generic drug products, including intellectual property and product liability risks; changes in the Combined Company’s income, commodity, other tax and regulatory liabilities including changes in tax laws, regulations or future assessments; new, or changes to existing, accounting pronouncements; any requirement of the Combined Company to make contributions to its registered funded defined benefit pension plans, post-employment benefits plan or the multi-employer pension plans in which it participates in excess of those currently contemplated; the risk that the Combined Company would experience a financial loss if its counterparties fail to meet their obligations in accordance with the terms and conditions of their contracts with the Combined Company; the inability of the Combined Company to collect on its credit card receivables; failure of the Combined Company to lease or obtain suitable store locations on economically viable terms; the effect of seasonality fluctuations; the risk of violations of law, breaches of the Combined Company’s policies or unethical

behaviour; property and casualty risks; injuries at the workplace or health issues; the risk of material adverse effects arising as a result of litigation; events or series of events which may cause business interruptions; as well as the risks described elsewhere in this Circular under “Risk Relating to the Arrangement”, “Information Relating to Shoppers Drug Mart — Risk Factors”, “Information Relating to Loblaw — Risk Factors” and “Information Relating to the Combined Company”.

Readers are cautioned that the foregoing list of factors is not exhaustive. Other risks and uncertainties not presently known to Loblaw and Shoppers Drug Mart or that Loblaw and Shoppers Drug Mart presently believe are not material could also cause actual results or events to differ materially from those expressed in the forward-looking statements contained herein. Additional information on these and other factors that could affect the operations or financial results of Loblaw, Shoppers Drug Mart or the Combined Company are included in reports filed by Loblaw and Shoppers Drug Mart with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

There can be no assurance that the Arrangement will occur or that the anticipated strategic benefits and operational, competitive and cost synergies will be realized. The Arrangement is subject to various regulatory approvals, including approvals under the Competition Act and by the TSX, and the fulfillment of certain conditions, and there can be no assurance that any such approvals will be obtained and/or any such conditions will be met. The Arrangement could be modified, restructured or terminated.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect Loblaw’s and Shoppers Drug Mart’s expectations only as of the date of this Circular. Loblaw and Shoppers Drug Mart disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

NOTICE TO SHOPPERS DRUG MART SHAREHOLDERS IN THE UNITED STATES

THE LOBLAW SHARES TO BE ISSUED IN CONNECTION WITH THE ARRANGEMENT HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR THE SECURITIES REGULATORY AUTHORITY IN ANY STATE IN THE UNITED STATES, NOR HAS THE SEC OR THE SECURITIES REGULATORY AUTHORITY OF ANY STATE IN THE UNITED STATES PASSED ON THE ADEQUACY OR ACCURACY OF THIS CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

The Loblaw Shares to be issued under the Arrangement will not be registered under the 1933 Act or the securities laws of any state of the United States. They will be issued in reliance upon the exemption from registration provided by section 3(a)(10) of the 1933 Act on the basis of the approval of the Court, which will consider, among other things, the fairness of the Arrangement to the persons affected. See “The Arrangement — Court Approval and Completion of the Arrangement”. The Loblaw Shares to be issued under the Arrangement will be freely transferable under United States federal securities laws, except that the 1933 Act imposes restrictions on the resale of Loblaw Shares received pursuant to the Arrangement by persons who are, or within three months before the resale were, “affiliates” of Loblaw.

Shoppers Drug Mart Shareholders resident in the United States should be aware that the Arrangement described herein may have tax consequences both in the United States and in Canada. Such consequences for Shoppers Drug Mart Shareholders may not be described fully herein. For a general discussion of the Canadian income tax consequences to investors who are

resident in the United States, see “Certain Canadian Federal Income Tax Considerations — Holders Not Resident in Canada”. U.S. holders are urged to consult their own tax advisors with respect to such Canadian and United States federal and state income tax consequences.

This solicitation of proxies is not subject to the proxy requirements of section 14(a) of the Exchange Act. Accordingly, the solicitation of proxies contemplated herein is made in accordance with Canadian corporate and securities laws, and this Circular has been prepared in accordance with the disclosure requirements of Canada. Shoppers Drug Mart Shareholders resident in the United States should be aware that, in general, such Canadian disclosure requirements are different from those applicable to proxy statements, prospectuses or registration statements prepared in accordance with U.S. laws. **The financial statements of Shoppers Drug Mart incorporated by reference herein have been prepared in accordance with GAAP and have been subject to Canadian generally accepted auditing standards.**

The enforcement by investors of civil liabilities under the United States securities laws may be affected adversely by the fact that Shoppers Drug Mart and Loblaw are organized under the laws of a jurisdiction other than the United States, that some of their respective officers and directors are residents of countries other than the United States, that some or all of the experts named in this Circular may be residents of countries other than the United States, or that all or a substantial portion of the assets of Shoppers Drug Mart, Loblaw and such persons are located outside the United States. As a result, it may be difficult or impossible for Shoppers Drug Mart Shareholders resident in the United States to effect service of process within the United States upon Shoppers Drug Mart, Loblaw, their respective officers and directors or the experts named herein, or to realize against them on judgments of courts of the United States. In addition, the Shoppers Drug Mart Shareholders resident in the United States should not assume that the courts of Canada: (a) would enforce judgments of United States courts obtained in actions against such persons predicated upon civil liabilities under the securities laws of the United States; or (b) would enforce, in original actions, liabilities against such persons predicated upon civil liabilities under the securities laws of the United States.

SUMMARY

The following is a summary of certain information contained elsewhere in, or incorporated by reference into, this Circular, including the Appendices hereto. Certain capitalized terms used in this summary are defined in the Glossary of Defined Terms or elsewhere in this Circular. This summary is qualified in its entirety by the more detailed information appearing elsewhere, or incorporated by reference, in this Circular.

Purpose of the Meeting

The purpose of the Meeting is for Shoppers Drug Mart Shareholders to consider and, if thought advisable, pass, with or without amendment, the Arrangement Resolution to approve the Arrangement under section 192 of the CBCA.

Date, Time and Place

The Meeting will be held at the Glenn Gould Studio, CBC Building, 250 Front Street West, Toronto, Ontario, Canada on September 12, 2013 at 11:00 a.m. (Toronto time).

Record Date

The record date for determining the Shoppers Drug Mart Shareholders entitled to receive notice of and to vote at the Meeting is August 12, 2013. Only Shoppers Drug Mart Shareholders of record as of the close of business on the Record Date are entitled to receive notice of and to vote at the Meeting.

Background to the Arrangement

The proposed Arrangement is the result of a series of discussions and arm's length negotiations conducted since February 2011 between Shoppers Drug Mart and Loblaw and their respective representatives and advisors.

See "The Arrangement — Background to the Arrangement".

Shoppers Drug Mart Shareholder Approval

The Shoppers Drug Mart Board recommends that Shoppers Drug Mart Shareholders vote **FOR** the Arrangement Resolution. To be effective, the Arrangement Resolution must be approved, with or without variation, by the affirmative vote of at least two-thirds of the votes cast on the Arrangement Resolution by all Shoppers Drug Mart Shareholders present in person or represented by proxy at the Meeting.

See "The Arrangement — Shoppers Drug Mart Shareholder Approval".

Effects of the Arrangement

If the Arrangement Resolution is passed and all other conditions to closing of the Arrangement are satisfied, Loblaw will acquire all of the issued and outstanding Shoppers Drug Mart Shares. Each Shoppers Drug Mart Shareholder who does not exercise Dissent Rights, may elect to receive, in exchange for each Shoppers Drug Mart Share held, (i) \$61.54 in cash or (ii) 1.29417 Loblaw Shares plus \$0.01 in

cash, subject to pro-ration. If the Arrangement is completed, Shoppers Drug Mart will become a wholly-owned subsidiary of Loblaw.

See “The Arrangement — Description of the Arrangement”.

Description of the Arrangement

The following description of the Arrangement is qualified in its entirety by reference to the full text of the Plan of Arrangement, which is attached as Appendix E to this Circular.

If approved, the following events or transactions shall be deemed to occur in the following sequence without any further act or formality:

- (a) the Shoppers Drug Mart Shareholder Rights Plan shall be terminated (and all rights issued thereunder shall expire) and shall be of no further force or effect;
- (b) each outstanding Shoppers Drug Mart Share held by a Validly Dissenting Shoppers Drug Mart Shareholder shall be deemed to be transferred by the holder thereof to Loblaw free and clear of all liens, claims and encumbrances, and each Validly Dissenting Shoppers Drug Mart Shareholder shall cease to have any rights as a Shoppers Drug Mart Shareholder other than the right to be paid the fair value of such holder’s Shoppers Drug Mart Shares;
- (c) simultaneously with the exchange referred to in paragraph (f) below, each Vested Shoppers Drug Mart RSU shall, without any act or formality on the part of the holder thereof, be disposed of and surrendered by the holder thereof, to Shoppers Drug Mart in exchange for a cash payment (net of any applicable withholdings) equal to (i) the number of Shoppers Drug Mart Shares subject to the Vested Shoppers Drug Mart RSU immediately prior to the Effective Time, multiplied by (ii) the fair market value of a Shoppers Drug Mart Share immediately prior to the Effective Time determined in accordance with the terms of the Shoppers Drug Mart RSU Plans, as applicable;
- (d) simultaneously with the exchange referred to in paragraph (f) below, each Unvested Shoppers Drug Mart Share Award shall be continued on the same terms and conditions as were applicable immediately prior to the Effective Time, except that, pursuant to the terms of the Shoppers Drug Mart RSU Plans, the Shoppers Drug Mart DSU Plan and the Shoppers Drug Mart CEO DSU Plan, as applicable, the terms of such Unvested Shoppers Drug Mart Share Awards shall be amended so as to substitute for the Shoppers Drug Mart Shares subject to such Unvested Shoppers Drug Mart Share Awards such number of Loblaw Shares equal to (i) the number of Shoppers Drug Mart Shares subject to the Unvested Shoppers Drug Mart Share Awards immediately prior to the Effective Time, multiplied by (ii) the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares;
- (e) simultaneously with the exchange referred to in paragraph (f) below, each Shoppers Drug Mart Option outstanding at the Effective Time (whether vested or unvested) will be exchanged for a Replacement Option to acquire such number of Loblaw Shares as is equal to: (i) that number of Shoppers Drug Mart Shares that were issuable upon exercise of such Shoppers Drug Mart Option immediately prior to the Effective Time, multiplied by (ii) the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares, at an exercise price per Loblaw Share equal to the greater of the quotient

determined by dividing: (X) the exercise price per Shoppers Drug Mart Share at which such Shoppers Drug Mart Option was exercisable immediately prior to the Effective Time, by (Y) the Exchange Ratio, rounded up to the nearest whole cent, and such minimum amount that meets the requirements of paragraph 7(1.4)(c) of the ITA;

- (f) each outstanding Shoppers Drug Mart Share (other than those held by Validly Shoppers Drug Mart Dissenting Shareholders), shall be transferred by the holder thereof to Loblaw in accordance with the election or deemed election of such holder pursuant to the Plan of Arrangement for cash and/or Loblaw Shares in the amounts as calculated in accordance with the Plan of Arrangement; and
- (g) the Shoppers Drug Mart Share Plan and the Shoppers Drug Mart Predecessor Plans shall be terminated (and all rights issued thereunder shall expire) and shall be of no further force or effect.

See “Arrangement — Description of the Arrangement”.

Shoppers Drug Mart

Shoppers Drug Mart is a corporation existing under the laws of Canada. Shoppers Drug Mart is the licensor of full-service retail drug stores operating under the name Shoppers Drug Mart (Pharmaprix in Québec) with 1,242 Shoppers Drug Mart and Pharmaprix stores operating in prime locations in each province and two territories. Shoppers Drug Mart also licenses or owns 57 medical clinic pharmacies operating under the name Shoppers Simply Pharmacy (Pharmaprix Simplement Santé in Québec) and six luxury beauty destinations operating as Murale. As well, Shoppers Drug Mart owns and operates 62 Shoppers Home Health Care stores, making it the largest Canadian retailer of home health care products and services. In addition to its retail store network, Shoppers Drug Mart owns Shoppers Drug Mart Specialty Health Network Inc., a provider of specialty drug distribution, pharmacy and comprehensive patient support services; and MediSystem Technologies Inc., a provider of pharmaceutical products and services to long-term care facilities.

See “Information Relating to Shoppers Drug Mart”.

Loblaw

Loblaw is a corporation existing under the laws of Canada. Loblaw is Canada’s largest food retailer and a leading provider of drugstore, general merchandise and financial products and services. Loblaw is one of the largest private sector employers in Canada. With more than 1,000 corporate and franchised stores from coast to coast, Loblaw and its franchisees employ more than 134,000 full-time and part-time employees.

See “Information Relating to Loblaw”.

Recommendation of the Special Committee

The Shoppers Drug Mart Board established the Special Committee to, among other things, review and consider the Arrangement and make recommendations to the Shoppers Drug Mart Board regarding the Arrangement.

The Special Committee, having undertaken a thorough review of, and having carefully considered, information concerning Shoppers Drug Mart, Loblaw and the Arrangement, and after consulting with

financial and legal advisors, has unanimously determined that the Arrangement is in the best interests of Shoppers Drug Mart (considering the interests of all affected stakeholders) and is fair to Shoppers Drug Mart Shareholders. **Accordingly, the Special Committee unanimously recommended that the Shoppers Drug Mart Board approve the Arrangement and recommends that the Shoppers Drug Mart Shareholders vote FOR the Arrangement Resolution.**

See “The Arrangement — Recommendation of the Special Committee”.

Recommendation of the Shoppers Drug Mart Board

After careful consideration, and following the unanimous recommendations of the Special Committee, the Shoppers Drug Mart Board unanimously determined that the Arrangement is in the best interests of Shoppers Drug Mart. **The Shoppers Drug Mart Board unanimously recommends that Shoppers Drug Mart Shareholders vote FOR the Arrangement Resolution.**

See “The Arrangement — Recommendation of the Shoppers Drug Mart Board”.

Reasons for the Recommendation of the Shoppers Drug Mart Board

In making their respective recommendations, the Special Committee and the Shoppers Drug Mart Board consulted with Shoppers Drug Mart’s management, RBC Capital Markets and legal counsel, reviewed a significant amount of information and considered a number of factors, including those listed below. The following includes forward-looking information and readers are cautioned that actual results may vary.

- **Premium to Shoppers Drug Mart Shareholders.** The Arrangement values the equity of Shoppers Drug Mart on a fully-diluted basis at approximately \$12.4 billion or \$61.54 per Shoppers Drug Mart Share (based on the closing price of the Loblaw Shares on the TSX of \$47.55 on July 12, 2013). This represents a premium of approximately 29.4% over Shoppers Drug Mart’s 20-day volume-weighted average trading price through July 12, 2013, the last trading day prior to the public announcement by Shoppers Drug Mart and Loblaw of the Arrangement.
- **Ability to Elect Form of Consideration.** Shoppers Drug Mart Shareholders will have the option to receive Loblaw Shares and/or cash, at their election, subject to pro-ration.
- **Combined Strength of Loblaw and Shoppers Drug Mart.** Shoppers Drug Mart believes that the continued share ownership in the Combined Company offered by the Arrangement would result in a number of benefits to Shoppers Drug Mart Shareholders, including the following:
 - *Participation by Shoppers Drug Mart Shareholders in Future Growth.* Shoppers Drug Mart Shareholders who receive Loblaw Shares pursuant to the Arrangement will have the opportunity to participate in any future increase in value of the Combined Company. Following the completion of the Arrangement, Shoppers Drug Mart Shareholders will own approximately 29% of the common shares of the Combined Company, with existing Loblaw shareholders (other than GWL) owning approximately 25% of the common shares of the Combined Company and GWL owning approximately 46% of the common shares of the Combined Company.
 - *Significant Anticipated Synergies.* Shoppers Drug Mart expects that the Combined Company will deliver significant savings through increased scale and operating efficiencies. Management of Shoppers Drug Mart and Loblaw expect the combination to

yield annual synergies of \$300 million in the third full year following closing (net of related costs), phased in evenly over the three years.

- *Value Creation.* The Arrangement is expected to lead to double-digit accretion, excluding the impact of amortization of intangible assets and the impact of other purchase price valuation adjustments related to the transaction, in Loblaw earnings per share in the first year. See “Information Relating to the Combined Company — Description of the Business of the Combined Company — Significant Benefits from Synergies”, “Forward-Looking Statements” and “Risks Relating to the Arrangement and the Combined Company”.
- *Complementary Assets.* The Combined Company will benefit from the complementary assets held by Loblaw and Shoppers Drug Mart. Loblaw has Canada’s largest grocery retail footprint, including approximately 500 pharmacies, and Shoppers Drug Mart has the largest drugstore network in Canada, including prime urban locations. Operating in the various grocery and drugstore formats, the Combined Company will be uniquely positioned to provide its customers with the right shopping experience in the right locations at the right time.
- *Enhanced Competitive Position and Increased Scale.* The Combined Company will be positioned to capitalize on important consumer trends, including the emphasis on health, wellness and nutrition and the imperatives of value and convenience. The combination of the two companies will significantly enhance the customer experience by offering greater assortment, service, value and convenience while preserving the unique shopping experiences that make both companies leaders. The Combined Company will also enjoy a scale and flexibility that will place the Combined Company in a position of strength as it faces growing competition in the Canadian marketplace.
- *Increased Market Liquidity.* Upon the completion of the Arrangement, the Combined Company will have a meaningfully enhanced position in the S&P/TSX Composite Index relative to either Shoppers Drug Mart’s or Loblaw’s position today. The Combined Company will also have a broader shareholder base with increased market liquidity and a larger public float. On a pro forma basis as of July 12, 2013, the Combined Company had a market capitalization of approximately \$20 billion and a public float of approximately \$11 billion, by far the largest of any retail or consumer stock traded on the TSX.
- *Corporate Governance and Operational Structure.* The board of directors of Loblaw will be reconstituted upon the closing of the Arrangement to consist of fourteen directors, including four directors of Shoppers Drug Mart, including Mr. Domenic Pilla, with the remaining three to be identified and agreed upon by Shoppers Drug Mart and Loblaw. In addition, Loblaw has indicated that it intends to operate Shoppers Drug Mart as a distinct division, retaining its name, Associate-owner structure, and unique, compelling shopping experience. Mr. Pilla will continue as President of Shoppers Drug Mart, bringing both stability and years of retail and pharmacy experience to the Combined Company.

For further detail regarding the Combined Company, see “Information Relating to the Combined Company”.

- **Advice from RBC Capital Markets.** In the opinion of RBC Capital Markets, as at the date of the RBC Capital Markets Fairness Opinion, and subject to the assumptions, limitations, qualifications and other matters contained therein, the consideration under the Arrangement is fair, from a

financial point of view, to Shoppers Drug Mart Shareholders. See “The Arrangement — RBC Capital Markets Fairness Opinion” and Appendix H “RBC Capital Markets Fairness Opinion”.

- **Ability to Respond to Superior Proposals.** Notwithstanding the limitations contained in the Arrangement Agreement on Shoppers Drug Mart’s ability to solicit interest from third parties, the Arrangement Agreement allows the Shoppers Drug Mart Board to engage in discussions or negotiations with respect to an unsolicited written bona fide Acquisition Proposal at any time prior to the approval of the Arrangement Resolution by Shoppers Drug Mart Shareholders and after the Shoppers Drug Mart Board determines, in good faith, that such Acquisition Proposal could reasonably be expected to lead to a Superior Proposal. See “The Arrangement Agreement — Covenants — Shoppers Drug Mart Non-Solicitation”.
- **Tax Deferred Rollover.** Shareholders who hold their Shoppers Drug Mart Shares as capital property, who are Eligible Holders who receive Loblaw Shares under the Arrangement and who properly complete and file the required election, should generally benefit from a full or partial tax deferred rollover in respect of capital gains that would otherwise be realized on the disposition of Shoppers Drug Mart Shares. See “Certain Canadian Federal Income Tax Considerations”.

The Special Committee’s and the Shoppers Drug Mart Board’s reasons contain forward-looking information, and are subject to various risks and assumptions. See “Forward-Looking Statements”, “Risks Relating to the Arrangement and the Combined Company”, “Information Relating to Shoppers Drug Mart — Risk Factors” and “Information Relating to Loblaw — Risk Factors”.

The Special Committee and the Shoppers Drug Mart Board also considered a number of other factors of which Shoppers Drug Mart Shareholders should be aware in determining whether or not to vote for the Arrangement Resolution, including the following:

- The conditions attached to the Arrangement, including the fact that the Arrangement remains subject to certain outstanding regulatory approvals, Court approval and the approval of the Shoppers Drug Mart Shareholders.
- The fact that the Arrangement Resolution must be approved by the affirmative vote of at least two-thirds of the votes cast on the Arrangement Resolution by Shoppers Drug Mart Shareholders present in person or represented by proxy at the Meeting, and the fact that if a higher offer is made to Shoppers Drug Mart Shareholders prior to the Meeting, Shoppers Drug Mart Shareholders are free to support such higher offer and vote against the Arrangement Resolution.
- The Arrangement must be approved by the Court, which will consider, among other things, the fairness of the Arrangement to Shoppers Drug Mart Shareholders.
- The availability of rights of dissent to the registered Shoppers Drug Mart Shareholders with respect to the Arrangement.
- The low level of execution risk associated with the regulatory aspects of the transaction, and the fact that Loblaw has agreed under the Arrangement Agreement to use its best efforts to obtain Competition Act Approval including effecting such remedies or actions as are necessary to obtain that approval.

RBC Capital Markets Fairness Opinion

RBC Capital Markets was engaged by Shoppers Drug Mart pursuant to an engagement letter dated April 29, 2013 as its financial advisor to advise and assist Shoppers Drug Mart with respect to a review of strategic alternatives available to Shoppers Drug Mart in connection with a potential transaction involving the direct or indirect sale or disposition of Shoppers Drug Mart including, if requested, providing an opinion as to the fairness, from a financial point of view, of the consideration to be received in respect of any such transaction. RBC Capital Markets delivered its opinion to the Shoppers Drug Mart Board to the effect that, as of July 14, 2013, and based upon and subject to the assumptions, limitations, qualifications and other matters stated in the RBC Capital Markets Fairness Opinion, RBC Capital Markets is of the opinion that the consideration under the Arrangement is fair, from a financial point of view, to Shoppers Drug Mart Shareholders. A copy of the RBC Capital Markets Fairness Opinion is attached as Appendix H.

The RBC Capital Markets Fairness Opinion does not constitute a recommendation to Shoppers Drug Mart Shareholders with respect to the Arrangement Resolution. The Special Committee and the Shoppers Drug Mart Board urge Shoppers Drug Mart Shareholders to read the RBC Capital Markets Fairness Opinion carefully and in its entirety.

See “The Arrangement — RBC Capital Markets Fairness Opinion”.

Letter of Transmittal and Election Form

A Letter of Transmittal and Election Form has been mailed, together with this Circular, to each person who was a registered holder of Shoppers Drug Mart Shares on the Record Date. Each registered Shoppers Drug Mart Shareholder must forward a properly completed and signed Letter of Transmittal and Election Form, with accompanying Shoppers Drug Mart Share certificate(s), in order to receive the consideration to which such Shoppers Drug Mart Shareholder is entitled under the Arrangement. It is recommended that Shoppers Drug Mart Shareholders complete, sign and return the Letter of Transmittal and Election Form with accompanying Shoppers Drug Mart Share certificate(s) to the Depository as soon as possible.

See “The Arrangement — Letter of Transmittal and Election Form”.

Pro-ration and Election Procedure

Available Elections and Procedure

Each registered holder of Shoppers Drug Mart Shares will have the right to elect in the Letter of Transmittal and Election Form to receive the form of Consideration set out below. **To make a valid election as to the form of Consideration that you wish to receive under the Arrangement, you must sign and return, if applicable, the Letter of Transmittal and Election Form and make a proper election thereunder and return it with accompanying Shoppers Drug Mart Share certificate(s) to the Depository prior to the Election Deadline, being 5:00 p.m. (Toronto time) on the business day which is two (2) business days preceding the Effective Date. Loblaw shall provide at least three (3) days’ notice of the Election Deadline to Shoppers Drug Mart Shareholders by means of a news release disseminated on newswire.**

An election will have been properly made by registered holders of Shoppers Drug Mart Shares only if the Depository has received, by the Election Deadline, a Letter of Transmittal and Election Form properly completed and signed and accompanied by the certificate(s) for the Shoppers Drug Mart Shares to which

the Letter of Transmittal and Election Form relates, properly endorsed or otherwise in proper form for transfer.

Shoppers Drug Mart Shareholders whose Shoppers Drug Mart Shares are registered in the name of a broker, investment dealer or other intermediary should contact that broker, investment dealer or other intermediary for instructions and assistance in delivery of the share certificate(s) representing those shares and making, if applicable, an election with respect to the form of Consideration they wish to receive.

The determination of the Depositary as to whether elections have been properly made and when elections were received by it will be binding. **SHOPPERS DRUG MART SHAREHOLDERS WHO DO NOT MAKE AN ELECTION PRIOR TO THE ELECTION DEADLINE, OR FOR WHOM THE DEPOSITARY DETERMINES THAT THEIR ELECTION WAS NOT PROPERLY MADE WITH RESPECT TO ANY SHOPPERS DRUG MART SHARES, WILL BE DEEMED TO HAVE ELECTED TO RECEIVE THE CASH CONSIDERATION AS TO 53.9% OF SUCH HOLDER'S SHOPPERS DRUG MART SHARES AND THE SHARE CONSIDERATION AS TO 46.1% OF SUCH HOLDER'S SHOPPERS DRUG MART SHARES, SUCH DEEMED ELECTION TO BE SUBJECT TO PRO-RATION.** The Depositary may, with the mutual agreement of Shoppers Drug Mart and Loblaw, make such rules as are consistent with the Arrangement for the implementation of the elections contemplated by the Arrangement and as are necessary or desirable to fully effect such elections.

Pro-ration

A Shoppers Drug Mart Shareholder may elect in accordance with the holder's Letter of Transmittal and Election Form (and a beneficial holder of Shoppers Drug Mart Shares may elect in accordance with instructions provided by their broker, investment dealer or other intermediary), for every Shoppers Drug Mart Share held, to receive either the (i) Cash Consideration or (ii) Share Consideration, provided that:

- the maximum number of Loblaw Shares that may, in the aggregate, be issued to the Shoppers Drug Mart Shareholders shall be equal to the product obtained by multiplying the number of Shoppers Drug Mart Shares issued and outstanding immediately prior to the Effective Time by 0.5965 (the "**Maximum Aggregate Share Consideration**"), which based on the fully diluted number of Shoppers Drug Mart Shares outstanding as of the date of the Arrangement Agreement would be approximately 119.9 million Loblaw Shares; and
- the maximum amount of cash that may, in aggregate, be paid to Shoppers Drug Mart Shareholders shall be equal to (a) the product obtained by multiplying the number of Shoppers Drug Mart Shares issued and outstanding immediately prior to the Effective Time by \$33.18, less (b) the product obtained by multiplying the number of Shoppers Drug Mart Shares held by Validly Dissenting Shoppers Drug Mart Shareholders by the Cash Consideration (the "**Maximum Aggregate Cash Consideration**"), which based on the fully diluted number of Shoppers Drug Mart Shares outstanding as of the date of the Arrangement Agreement would be approximately \$6.67 billion.

In the event that the aggregate amount of cash that would be paid to Shoppers Drug Mart Shareholders in accordance with the elections or deemed elections of such Shoppers Drug Mart Shareholders (the "**Total Elected Cash Consideration**") exceeds the Maximum Aggregate Cash Consideration, then the aggregate amount of cash to be paid to any Shoppers Drug Mart Shareholder shall be determined by multiplying the aggregate amount of cash that would have been paid to such Shoppers Drug Mart Shareholder without pro-ration by a fraction, rounded to six decimal places, the numerator of which is the Maximum Aggregate Cash Consideration and the denominator of which is the Total Elected Cash Consideration;

and such holder shall be deemed to have elected to receive Share Consideration for the remainder of their Shoppers Drug Mart Shares for which such holder would otherwise have received cash.

In the event that the aggregate number of Loblaw Shares that would be issued to Shoppers Drug Mart Shareholders in accordance with the elections or deemed elections of such Shoppers Drug Mart Shareholders (the “**Total Elected Share Consideration**”) exceeds the Maximum Aggregate Share Consideration, then the aggregate number of Loblaw Shares to be issued to any Shoppers Drug Mart Shareholder shall be determined by multiplying the aggregate number of Loblaw Shares that would have been issued to such Shoppers Drug Mart Shareholder without pro-ration by a fraction, rounded to six decimal places, the numerator of which is the Maximum Aggregate Share Consideration and the denominator of which is the Total Elected Share Consideration, rounded down to the closest whole number; and such holder shall be deemed to have elected to receive Cash Consideration for the remainder of their Shoppers Drug Mart Shares for which such holder would otherwise have received Loblaw Shares.

See “The Arrangement — Elections, Pro-ration and Exchange Procedure — Available Elections and Procedure” and “The Arrangement — Elections, Pro-ration and Exchange Procedure — Pro-ration”.

Fractional Shares

In no event shall any fractional Loblaw Shares be issued under the Arrangement. If the aggregate number of Loblaw Shares to be issued to a Shoppers Drug Mart Shareholder as consideration under the Arrangement would result in a fraction of a Loblaw Share being issuable, then the number of Loblaw Shares to be issued to such Shoppers Drug Mart Shareholder shall be rounded down to the closest whole number and, in lieu of the issuance of a fractional Loblaw Share thereof, Loblaw will pay to each such holder a cash payment (rounded down to the nearest cent) determined by reference to the volume weighted average trading price of Loblaw Shares on the TSX for the five trading days on which such shares trade on the TSX immediately preceding the Effective Date.

If the aggregate cash amount which a Shoppers Drug Mart Shareholder is entitled to receive would otherwise include a fraction of \$0.01, then the aggregate cash amount to which such Shoppers Drug Mart Shareholder shall be entitled to receive shall be rounded up to the nearest whole \$0.01.

See “The Arrangement — Elections, Pro-ration and Exchange Procedure — No Fractional Shares and Rounding of Cash Consideration”.

The Arrangement Agreement

The Arrangement Agreement provides for the Arrangement and matters related thereto. Under the Arrangement Agreement, Shoppers Drug Mart has agreed to, among other things, call the Meeting to seek the approval of Shoppers Drug Mart Shareholders for the Arrangement Resolution and, if approved, apply to the Court for the Final Order.

See “The Arrangement Agreement”.

Procedure for the Arrangement to Become Effective

The Arrangement is proposed to be carried out pursuant to section 192 of the CBCA. The following procedural steps must be taken in order for the Arrangement to become effective:

- the Court must grant the Final Order approving the Arrangement; and

- all conditions precedent to the Arrangement further described in the Arrangement Agreement must be satisfied or waived by the appropriate party.

See “The Arrangement — Procedure for the Arrangement to Become Effective”.

Court Approval and Completion of the Arrangement

The Arrangement requires approval by the Court under section 192 of the CBCA. Prior to the mailing of this Circular, Shoppers Drug Mart obtained the Interim Order providing for the calling and holding of the Meeting and other procedural matters. A copy of the Interim Order is attached hereto as Appendix G. A copy of the notice of application applying for the Final Order is attached hereto as Appendix F.

Subject to the approval of the Arrangement Resolution by Shoppers Drug Mart Shareholders at the Meeting, the hearing in respect of the Final Order is scheduled to take place on September 16, 2013 at the Court at 330 University Avenue, Toronto Ontario M5G 1R7. At the hearing, the Court will consider, among other things, the fairness and reasonableness of the Arrangement and the rights of every person affected. The Court may approve the Arrangement in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court deems fit and subject to the terms of the Arrangement Agreement. Participation in the hearing on the Final Order, including who may participate and present evidence or argument and the procedure for doing so is subject to the terms of the Interim Order and any subsequent direction of the Court.

Any Shoppers Drug Mart Shareholder or other person who wishes to participate, to appear, to be represented, and to present evidence or arguments at the hearing, must serve and file a notice of appearance (a “**Notice of Appearance**”) and satisfy the other requirements of the Court, as directed in the Interim Order appended hereto as Appendix G and as the Court may direct in the future. In the event that the hearing is postponed, adjourned or rescheduled then, subject to further direction of the Court, only those persons having previously served a Notice of Appearance in compliance with the Interim Order will be given notice of the new date.

Assuming the Final Order is granted, Competition Act Approval is obtained and the other conditions to closing contained in the Arrangement Agreement are satisfied or waived, then the Articles of Arrangement will be filed with the Director to give effect to the Arrangement.

See “The Arrangement — Court Approval and Completion of the Arrangement”.

Treatment of the Shoppers Drug Mart Options

Each Shoppers Drug Mart Option outstanding at the Effective Time (whether vested or unvested) will be exchanged for a Replacement Option. Each Replacement Option enables the holder to acquire such number of Loblaw Shares as is equal to the product of that number of Shoppers Drug Mart Shares that were issuable upon exercise of such Shoppers Drug Mart Option immediately prior to the Effective Time multiplied by the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares, at an exercise price per Loblaw Share equal to the greater of the quotient determined by dividing the exercise price per Shoppers Drug Mart Share at which such Shoppers Drug Mart Option was exercisable immediately prior to the Effective Time, by the Exchange Ratio, rounded up to the nearest whole cent, and such minimum amount that meets the requirements of paragraph 7(1.4)(c) of the ITA. All terms and conditions of a Replacement Option, including the term to expiry, vesting, conditions to and manner of exercise, shall be the same as the Shoppers Drug Mart Option for which it was exchanged, and any certificate or option agreement previously evidencing the Shoppers Drug Mart Option shall thereafter evidence such Replacement Option.

See “The Arrangement — Treatment of Shoppers Drug Mart Compensation Plans — Options”.

Treatment of the Shoppers Drug Mart Share Awards

Each Vested Shoppers Drug Mart RSU shall, without any act or formality on the part of the holder thereof, be disposed of and surrendered by the holder thereof, to Shoppers Drug Mart in exchange for a cash payment (net of any applicable withholdings) equal to (A) the number of Shoppers Drug Mart Shares subject to the Vested Shoppers Drug Mart RSU immediately prior to the Effective Time, multiplied by (B) the fair market value of a Shoppers Drug Mart Share immediately prior to the Effective Time determined in accordance with the terms of the Shoppers Drug Mart RSU Plans, as applicable.

Each Unvested Shoppers Drug Mart Share Award shall be continued on the same terms and conditions as were applicable immediately prior to the Effective Time, except that, pursuant to the terms of the Shoppers Drug Mart RSU Plans, the Shoppers Drug Mart DSU Plan and the Shoppers Drug Mart CEO DSU Plan, as applicable, the terms of such Unvested Shoppers Drug Mart Share Award shall be amended so as to substitute for the Shoppers Drug Mart Shares subject to such Unvested Shoppers Drug Mart Share Award such number of Loblaw Shares equal to (A) the number of Shoppers Drug Mart Shares subject to the Unvested Shoppers Drug Mart Share Award immediately prior to the Effective Time, multiplied by (B) the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares.

See “The Arrangement — Treatment of Shoppers Drug Mart Compensation Plans — Share Awards”.

Dissent Rights

Registered Shoppers Drug Mart Shareholders are entitled to dissent from the Arrangement Resolution in the manner provided in section 190 of the CBCA, as modified by the Interim Order, the Plan of Arrangement and the Final Order.

Anyone who is a beneficial owner of Shoppers Drug Mart Shares registered in the name of an Intermediary and who wishes to dissent should be aware that only Registered Shoppers Drug Mart Shareholders are entitled to exercise Dissent Rights. A Registered Shoppers Drug Mart Shareholder who holds Shoppers Drug Mart Shares as an Intermediary for one or more beneficial owners, one or more of whom wish to exercise Dissent Rights, must exercise such Dissent Rights on behalf of such holder(s).

All Dissent Notices must be received by the Vice President, Legal Affairs and Secretary of Shoppers Drug Mart at its office located at 243 Consumers Road, Toronto, Ontario M2J 4W8, on or prior to 5:00 p.m. (Toronto time) on the day that is two (2) Business Days immediately preceding the date of the Meeting (as it may be adjourned or postponed from time to time). It is important that Shoppers Drug Mart Shareholders strictly comply with this requirement, which is different from the statutory dissent provisions of the CBCA which would permit a Dissent Notice to be provided at or prior to the Meeting.

See “Rights of Dissenting Shoppers Drug Mart Shareholders”.

Stock Exchange Listing and Reporting Issuer Status

If the Arrangement is completed, Loblaw intends to delist the Shoppers Drug Mart Shares from the TSX. Shoppers Drug Mart currently has medium term notes outstanding and as a result is expected to remain a reporting issuer following the Arrangement. Loblaw is a reporting issuer in each province and territory of Canada. The Loblaw Shares are listed on the TSX under the symbol “L”.

Loblaw will apply to list the Loblaw Shares issuable pursuant to the Arrangement and upon the exercise of the Replacement Options on the TSX and shall use its commercially reasonable efforts to obtain approval, subject to customary conditions, for the listing of such Loblaw Shares on the TSX.

Certain Canadian Federal Income Tax Considerations

Shoppers Drug Mart Shareholders who are residents of Canada for purposes of the ITA will realize a taxable disposition of their Shoppers Drug Mart Shares under the Arrangement regardless of whether they elect, or are deemed to elect, to receive cash and/or Loblaw Shares. An Eligible Holder who receives Loblaw Shares under the Arrangement and who makes a Joint Tax Election with Loblaw may benefit from a full or partial tax deferred rollover in respect of capital gains that would otherwise be realized. Generally, Shoppers Drug Mart Shareholders who are residents of Canada for purposes of the ITA, whose Shoppers Drug Mart Shares constitute “capital property” and who receive Loblaw Shares and cash under the Arrangement should be able to exchange their Shoppers Drug Mart Shares for Loblaw Shares and cash under the Arrangement on a fully or partially tax-deferred basis by making an appropriate election jointly with Loblaw under section 85 of the ITA. A Shoppers Drug Mart Shareholder who does not make such an election under section 85 of the ITA or who only receives Cash Consideration on the disposition of the Shoppers Drug Mart Shares under the Arrangement will generally realize a capital gain (capital loss) equal to the amount by which the proceeds of disposition that such Shoppers Drug Mart Shareholder receives under the Arrangement, net of any reasonable costs of disposition, exceed (are less than) the adjusted cost base of the Shoppers Drug Mart Shares to the Shoppers Drug Mart Shareholder immediately before the Effective Time. Shoppers Drug Mart Shareholders who are not residents of Canada for purposes of the ITA and do not hold their Shoppers Drug Mart Shares as “taxable Canadian property” will not be subject to tax under the ITA on the disposition of their Shoppers Drug Mart Shares under the Arrangement regardless whether they elect, or are deemed to elect, to receive cash and/or Loblaw Shares.

See “Certain Canadian Federal Income Tax Considerations”.

Risk Factors

There are a number of risk factors relating to the Arrangement, Shoppers Drug Mart, Loblaw and the Combined Company all of which should be carefully considered by Shoppers Drug Mart Shareholders.

See “Risks Relating to the Arrangement and the Combined Company”; “Information Relating to Shoppers Drug Mart — Risk Factors”; “Information Relating to Loblaw — Risk Factors”; and “Information Relating to the Combined Company”.

United States Securities Law Matters

The Loblaw Shares to be issued pursuant to the Arrangement will not be registered under the 1933 Act or the securities laws of any state of the United States and will be issued in reliance on the exemption afforded by section 3(a)(10) of the 1933 Act. The Loblaw Shares will generally not be subject to resale restrictions under U.S. federal securities laws for persons who are not affiliates of Loblaw following the Arrangement.

See “Regulatory Matters — U.S. Securities Law Matters”.

QUESTIONS AND ANSWERS ABOUT THE MEETING AND THE ARRANGEMENT

Q: Does the Shoppers Drug Mart Board support the Arrangement?

A: Yes. The Shoppers Drug Mart Board has unanimously determined that the Arrangement is in the best interests of Shoppers Drug Mart and Shoppers Drug Mart Shareholders should vote FOR the Arrangement Resolution.

In making its recommendation, the Shoppers Drug Mart Board considered a number of factors as described in this Circular under the heading “The Arrangement — Reasons for the Recommendations”, including the unanimous recommendation of the Special Committee that was created for, among other things, the purpose of considering the Arrangement, and the opinion from RBC Capital Markets that, as of July 14, 2013, the consideration under the Arrangement is fair, from a financial point of view, to Shoppers Drug Mart Shareholders. See “The Arrangement — Background to the Arrangement”.

Q: What approvals are required by Shoppers Drug Mart Shareholders at the Meeting?

A: To be effective, the Arrangement Resolution must be approved, with or without variation, by the affirmative vote of at least two-thirds of the votes cast on the Arrangement Resolution by Shoppers Drug Mart Shareholders, present in person or represented by proxy at the Meeting. See “The Arrangement — Shoppers Drug Mart Shareholder Approval”.

Q: What other approvals are required for the Arrangement?

A: The Arrangement is subject to approval under the Competition Act. See “Regulatory Matters — Competition Act Approval”.

The Arrangement must also be approved by the Court. The Court will be asked to make an order approving the Arrangement and to determine that the Arrangement is fair to the Shoppers Drug Mart Shareholders. Shoppers Drug Mart will apply to the Court for this order if the Shoppers Drug Mart Shareholders approve the Arrangement at the Meeting. See “The Arrangement — Court Approval and Completion of the Arrangement”.

Q: When will the Arrangement become effective?

A: Subject to obtaining the Court and regulatory approvals described above, as well as the satisfaction of all other conditions precedent, if Shoppers Drug Mart Shareholders approve the Arrangement Resolution, it is anticipated that the Arrangement will be completed before the end of the first quarter of 2014.

Q: What will I receive for my Shoppers Drug Mart Shares under the Arrangement?

A: Under the Arrangement, each Shoppers Drug Mart Shareholder may elect to receive either \$61.54 in cash or 1.29417 Loblaw Shares plus \$0.01 in cash for each Shoppers Drug Mart Share held, subject to pro-rata if the aggregate amount of cash elected by the Shoppers Drug Mart Shareholders exceeds the Maximum Aggregate Cash Consideration or if the aggregate number of Loblaw Shares elected exceeds the Maximum Aggregate Share Consideration. On a fully pro-

rated basis, a Shoppers Drug Mart Shareholder would receive \$33.18 in cash and 0.5965 of a Loblaw Share for each Shoppers Drug Mart Share held. See “The Arrangement — Description of the Arrangement” and “The Arrangement — Elections, Pro-ration and Exchange Procedure”.

Q: How do I elect to receive my Consideration under the Arrangement?

A: Each registered holder of Shoppers Drug Mart Shares will have the right to elect to receive its preferred form of Consideration, subject to pro-ration, by delivering its Letter of Transmittal and Election Form to the Depositary prior to the Election Deadline, being 5:00 p.m. (Toronto time) on the business day which is two (2) business days preceding the Effective Date. Loblaw shall provide at least three (3) days’ notice of the Election Deadline to Shoppers Drug Mart Shareholders by means of a news release disseminated on newswire.

Shoppers Drug Mart Shareholders whose Shoppers Drug Mart Shares are registered in the name of a broker, investment dealer or other intermediary should contact that broker, investment dealer or other intermediary for instructions on making an election with respect to the form of Consideration they wish to receive.

See “The Arrangement — Elections, Pro-ration and Exchange Procedure”.

Q: What are the Canadian federal income tax consequences of the elections that I make with respect to the Arrangement?

A: Shoppers Drug Mart Shareholders who are residents of Canada for purposes of the ITA will realize a taxable disposition of their Shoppers Drug Mart Shares under the Arrangement regardless of whether they elect, or are deemed to elect, to receive cash and/or Loblaw Shares. An Eligible Holder who receives Loblaw Shares under the Arrangement and who makes a Joint Tax Election with Loblaw may benefit from a full or partial tax deferred rollover in respect of capital gains that would otherwise be realized. Generally, Shoppers Drug Mart Shareholders who are residents of Canada for purposes of the ITA, whose Shoppers Drug Mart Shares constitute “capital property” and who receive Loblaw Shares plus cash under the Arrangement should be able to exchange their Shoppers Drug Mart Shares for Loblaw Shares and cash under the Arrangement on a fully or partially tax-deferred basis by making an appropriate election jointly with Loblaw under section 85 of the ITA. A Shoppers Drug Mart Shareholder who does not make such an election under section 85 of the ITA or who only receives Cash Consideration on the disposition of the Shoppers Drug Mart Shares under the Arrangement will generally realize a capital gain (capital loss) equal to the amount by which the proceeds of disposition that such Shoppers Drug Mart Shareholder receives under the Arrangement, net of any reasonable costs of disposition, exceed (are less than) the adjusted cost base of the Shoppers Drug Mart Shares to the Shoppers Drug Mart Shareholder immediately before the Effective Time. Shoppers Drug Mart Shareholders who are not residents of Canada for purposes of the ITA and do not hold their Shoppers Drug Mart Shares as “taxable Canadian property” will not be subject to tax under the ITA on the disposition of their Shoppers Drug Mart Shares under the Arrangement regardless of whether they elect, or are deemed to elect, to receive cash and/or Loblaw Shares. See “Certain Canadian Federal Income Tax Considerations”.

Q: What will happen to Shoppers Drug Mart if the Arrangement is completed?

A: If the Arrangement is completed, Loblaw will acquire all of the Shoppers Drug Mart Shares and Shoppers Drug Mart will become a wholly-owned subsidiary of Loblaw. Loblaw intends to have the Shoppers Drug Mart Shares delisted from the TSX. Shoppers Drug Mart currently has

medium term notes outstanding and as a result is expected to remain a reporting issuer following the Arrangement.

Q: What will happen to my Shoppers Drug Mart Options, Shoppers Drug Mart DSUs and Shoppers Drug Mart RSUs in connection with the Arrangement?

A: Each Shoppers Drug Mart Option that has not been exercised prior to the Effective Time will be exchanged for a Replacement Option to acquire Loblaw Shares on the same terms and conditions as were applicable under the Shoppers Drug Mart Option prior to the exchange. The number of Loblaw Shares issuable upon the exercise of a Replacement Option will be equal to the number of Shoppers Drug Mart Shares issuable under the exchanged Shoppers Drug Mart Option multiplied by the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares. The exercise price of a Replacement Option will be equal to the greater of (i) the quotient determined by dividing the exercise price of the Shoppers Drug Mart Option immediately prior to the Effective Time by the Exchange Ratio, rounded up to the nearest whole cent; and (ii) the minimum amount that meets the requirements of paragraph 7(1.4)(c) of the ITA.

Each Vested Shoppers Drug Mart RSU will be surrendered for a cash payment from Shoppers Drug Mart equal to the number of shares subject to the Vested Shoppers Drug Mart RSU immediately prior to the Effective Time multiplied by the fair market value of a Shoppers Drug Mart Share immediately prior to the Effective Time, determined in accordance with the Shoppers Drug Mart RSU Plans, as applicable.

Each Unvested Shoppers Drug Mart Share Award will be continued on the same terms and conditions as were applicable immediately prior to the Effective Time, except that the terms will be amended so as to substitute for the Shoppers Drug Mart Shares subject to such Unvested Shoppers Drug Mart Share Awards a number of Loblaw Shares equal to the number of Shoppers Drug Mart Shares subject to such awards multiplied by the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares, and as otherwise set out below.

Q: Are the Loblaw Shares listed on a stock exchange?

A: Yes. The Loblaw Shares currently trade on the TSX under the symbol “L”. Loblaw has applied to list the Loblaw Shares issuable under the Arrangement on the TSX and it is a condition of closing that Loblaw will have obtained approval for this listing.

Q: Are Shoppers Drug Mart Shareholders entitled to Dissent Rights?

A: Yes. Under the Interim Order, registered holders of Shoppers Drug Mart Shares are entitled to Dissent Rights only if they follow the procedures specified in the CBCA, as modified by the Interim Order. If you wish to exercise Dissent Rights, you should review the requirements summarized in this Circular carefully and consult with your legal advisor. See “Rights of Dissenting Shoppers Drug Mart Shareholders”.

Q: What will happen if the Arrangement Resolution is not approved or the Arrangement is not completed for any reason?

A: If the Arrangement Resolution is not approved or the Arrangement is not completed for any reason, the Arrangement Agreement may be terminated. In certain circumstances, Shoppers Drug Mart will be required to pay to Loblaw a termination payment of \$300 million or make an expense reimbursement payment of \$30 million to Loblaw in connection with such termination. See “The Arrangement Agreement — Termination of the Arrangement Agreement”.

Q: What do I need to do now in order to vote on the Arrangement Resolution?

A: You should carefully read and consider the information contained in this Circular. Registered Shoppers Drug Mart Shareholders should then vote by completing the enclosed form of proxy or, alternatively, by telephone, or over the internet, in each case in accordance with the enclosed instructions. A proxy will not be valid for use at the Meeting unless the completed form of proxy is deposited at the offices of CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. at P.O. Box 721, Agincourt, Ontario M1S 0A1, in the enclosed envelope, by facsimile to (416) 368-2502 or toll free to 1-866-781-3111 or by courier or hand delivery to CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc., 320 Bay Street, Banking Basement Level (B1), Toronto, Ontario M5H 4A6 or deposited via email at proxy@canstockta.com by 11:00 a.m. (Toronto time) on September 10, 2013 (or if the Meeting is adjourned, 11:00 a.m. (Toronto time) on the second last business day prior to any reconvened Meeting in the event of an adjournment of the Meeting). Shoppers Drug Mart reserves the right to accept late proxies and to waive the proxy cut-off, with or without notice, but is under no obligation to accept or reject any particular late proxy. See “General Information Concerning the Meeting and Voting — Voting by Proxies – Registered Voters”.

If you hold your Shoppers Drug Mart Shares through a broker, investment dealer or other intermediary, please follow the instructions provided by such broker, investment dealer or other intermediary to ensure that your vote is counted at the Meeting and contact your Intermediary for instructions and assistance in delivering the share certificate(s) representing those shares and, if applicable, making an election with respect to the form of Consideration you wish to receive. See “General Information Concerning the Meeting and Voting — Voting of Shoppers Drug Mart Shares Beneficially Owned by Non-Registered Shareholders”.

Q: Should I send in my proxy now?

A: Yes. To ensure your vote is counted, you need to complete and submit the enclosed form of proxy or, if applicable, provide your broker, investment dealer or other intermediary with voting instructions. You are encouraged to vote well in advance of the proxy cut-off at 11:00 a.m. (Toronto time) on September 10, 2013 (or 11:00 a.m. (Toronto time) on the second last business day prior to any reconvened Meeting in the event of an adjournment of the Meeting).

Q: Should I send in my Letter of Transmittal and Election Form and Shoppers Drug Mart Share certificates now?

A: Yes. It is recommended that all registered holders of Shoppers Drug Mart Shares complete, sign and return the Letter of Transmittal and Election Form with accompanying Shoppers Drug Mart Share certificate(s) to the Depository as soon as possible. To make a valid election as to the form of Consideration that you wish to receive under the Arrangement (subject to pro-ration), you must sign and return, if applicable, the Letter of Transmittal and Election Form and make a proper election thereunder and return it with accompanying Shoppers Drug Mart Share certificate(s) to the Depository prior to the Election Deadline, being 5:00 p.m. (Toronto time) on the business day which is two (2) business days preceding the Effective Date. Loblaw shall provide at least three (3) days’ notice of the Election Deadline to Shoppers Drug Mart Shareholders by means of a news release disseminated on newswire. If you fail to make a proper election by the Election Deadline, you will be deemed to have elected to receive the Cash Consideration in respect of 53.9% of your Shoppers Drug Mart Shares and the Share Consideration in respect of 46.1% of your Shoppers Drug Mart Shares, subject to pro-ration. Please be sure to use the Letter of Transmittal and Election Form. See “The Arrangement — Elections, Pro-ration and Exchange Procedure”.

Q: If my Shoppers Drug Mart Shares are held by my broker, investment dealer or other intermediary, will they vote my Shoppers Drug Mart Shares or make an election for me?

A: A broker, investment dealer or other intermediary will vote the Shoppers Drug Mart Shares held by you, or make an election on your behalf, only if you provide instructions to such broker, investment dealer or other intermediary on how to vote or which election to make. If you fail to give proper instructions, those Shoppers Drug Mart Shares will not be voted and no election will be made on your behalf. Shoppers Drug Mart Shareholders should instruct their brokers, investment dealers or other intermediaries to vote their Shoppers Drug Mart Shares and make an election on their behalf by following the directions provided to them by their brokers. Unless your broker, investment dealer or other Intermediary gives you its proxy to vote the Shoppers Drug Mart Shares at the Meeting, you cannot vote those Shoppers Drug Mart Shares owned by you at the Meeting. See “General Information Concerning the Meeting and Voting — Voting of Shoppers Drug Mart Shares Beneficially Owned by Non-registered Shareholders”.

If you fail to make a proper election by the Election Deadline, you will be deemed to have elected to receive the Cash Consideration in respect of 53.9% of your Shoppers Drug Mart Shares and the Share Consideration in respect of 46.1% of your Shoppers Drug Mart Shares, subject to pro-ration. See “The Arrangement — Elections, Pro-ration and Exchange Procedure”.

Q: When will I receive the Consideration payable to me under the Arrangement for my Shoppers Drug Mart Shares?

A: You will receive the Consideration due to you under the Arrangement as soon as practicable after the Arrangement becomes effective and your Letter of Transmittal and Election Form and Shoppers Drug Mart Share certificate(s) and all other required documents are properly completed and received by the Depositary. It is anticipated that the Arrangement will be completed before the end of the first quarter of 2014 assuming the Arrangement Resolution is approved, all Court and all other approvals have been obtained, and all conditions of closing have been satisfied or waived. See “The Arrangement — Procedure for the Arrangement to Become Effective”.

Q: What happens if I send in my Shoppers Drug Mart Share certificate(s) and the Arrangement Resolution is not approved or the Arrangement is not completed?

A: If the Arrangement Resolution is not approved or if the Arrangement is not otherwise completed, your Shoppers Drug Mart Share certificate(s) will be returned promptly to you by the Depositary.

Q: Can I revoke my vote after I have voted by proxy?

A: Yes. A Shoppers Drug Mart Shareholder executing the enclosed form of proxy has the right to revoke it by providing a new proxy dated as at a later date, provided that the new proxy is received by CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. before 5:00 p.m. (Toronto time) on September 11, 2013, or 5:00 p.m. (Toronto time) on the last business day prior to any reconvened Meeting in the event of an adjournment of the Meeting. A registered Shoppers Drug Mart Shareholder may also revoke any prior proxy without providing new voting instructions by clearly indicating in writing that such Shoppers Drug Mart Shareholder wants to revoke his, her or its proxy and delivering this written document to (i) the registered office of Shoppers Drug Mart at 243 Consumers Road, Toronto, Ontario, M2J 4W8, Attention: Vice President, Legal Affairs & Secretary, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment of the Meeting, or (ii) the Chair of the Meeting prior to the commencement of the Meeting on the day of the Meeting or any

adjournment thereof, or in any other way permitted by law. See “General Information Concerning the Meeting — Revocability of Proxies”.

Q: Who can help answer my questions?

A: If you have any questions about this Circular or the matters described in this Circular, please contact your professional advisor. Shoppers Drug Mart Shareholders who would like additional copies, without charge, of this Circular or have additional questions about the procedures for voting Shoppers Drug Mart Shares or making an election, should contact their broker or Laurel Hill by email, or at one of the numbers below.

North American Toll-Free Number:	1-877-452-7184
Outside of North America Collect Calls Number:	416-304-0211
By Email:	assistance@laurelhill.com

GENERAL INFORMATION CONCERNING THE MEETING AND VOTING

DATE, TIME AND PLACE

The Meeting will be held at the Glenn Gould Studio, CBC Building, 250 Front Street West, Toronto, Ontario, Canada on September 12, 2013 at 11:00 a.m. (Toronto time).

RECORD DATE

The record date for determining the Shoppers Drug Mart Shareholders entitled to receive notice of and to vote at the Meeting is August 12, 2013. Only Shoppers Drug Mart Shareholders of record as of the close of business (Toronto time) on the Record Date are entitled to receive notice of and to vote at the Meeting.

SOLICITATION OF PROXIES

This Circular is furnished by management of Shoppers Drug Mart in connection with the solicitation of proxies for use at the Meeting to be held on September 12, 2013 at 11:00 a.m. (Toronto time) at the Glenn Gould Studio, CBC Building, 250 Front Street West, Toronto, Ontario, Canada, and at any adjournments of the Meeting.

The solicitation of proxies by this Circular is being made by or on behalf of management of Shoppers Drug Mart. It is expected that the solicitation will be made primarily by mail, but proxies may also be solicited by telephone, over the internet, in writing or in person. In addition, Shoppers Drug Mart has retained the services of Laurel Hill to solicit proxies for a fee of approximately \$60,000, and Shoppers Drug Mart has also agreed to reimburse out-of-pocket expenses of Laurel Hill and to indemnify it against certain liabilities arising out of or in connection with such engagement. The cost of the solicitation will be borne by Shoppers Drug Mart.

VOTING BY PROXIES – REGISTERED VOTERS

The form of proxy accompanying this Circular confers discretionary authority upon the proxy nominee with respect to any amendments or variations to matters identified in the Notice of Special Meeting accompanying this Circular and any other matters that may properly come before the Meeting. As at the date of this Circular, Shoppers Drug Mart's management is not aware of any such amendments or variations, or of other matters to be presented for action at the Meeting.

If the instructions in a proxy given to Shoppers Drug Mart's management are certain, the Shoppers Drug Mart Shares represented by proxy will be voted or withheld from voting in accordance with the instructions of the Shoppers Drug Mart Shareholder on any poll as specified in the proxy with respect to the matter to be acted on. **If a choice is not so specified with respect to any such matter, the Shoppers Drug Mart Shares represented by a proxy given to Shoppers Drug Mart's management will be voted FOR the approval of the Arrangement Resolution as described in this Circular. A Shoppers Drug Mart Shareholder has the right to appoint a person (who need not be a Shoppers Drug Mart Shareholder) to attend and act for him, her or it and on his, her or its behalf at the Meeting other than the persons designated in the form of proxy and may exercise such right by inserting the name in full of the desired person in the blank space provided in the form of proxy and striking out the names now designated.**

Shoppers Drug Mart Shareholders who are unable to attend the Meeting or any adjournment thereof in person are encouraged to vote by completing the enclosed form of proxy or, alternatively, by telephone,

or over the internet, in each case in accordance with the enclosed instructions. A proxy will not be valid for use at the Meeting unless the completed form of proxy is deposited at the offices of CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. at P.O. Box 721, Agincourt, Ontario M1S 0A1, in the enclosed envelope, by facsimile to (416) 368 -2502 or toll free to 1-866-781-3111 or by courier or hand delivery to CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc., 320 Bay Street, Banking Basement Level (B1), Toronto, Ontario M5H 4A6 or deposited via email at proxy@canstockta.com by 11:00 a.m. (Toronto time) on September 10, 2013 (or if the Meeting is adjourned, 11:00 a.m. (Toronto time) on the second last business day prior to any reconvened Meeting in the event of an adjournment of the Meeting). Shoppers Drug Mart reserves the right to accept late proxies and to waive the proxy cut-off, with or without notice, but is under no obligation to accept or reject any particular late proxy.

A Shoppers Drug Mart Shareholder should use the enclosed form of proxy.

REVOCABILITY OF PROXIES

A registered Shoppers Drug Mart Shareholder may revoke any prior proxy by providing a new proxy with a later date, provided that the new proxy is received by CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. before 5:00 p.m. (Toronto time) on September 11, 2013, or 5:00 p.m. (Toronto time) on the last business day prior to any reconvened Meeting in the event of an adjournment of the Meeting. A registered Shoppers Drug Mart Shareholder may also revoke any prior proxy without providing new voting instructions by clearly indicating in writing that such Shoppers Drug Mart Shareholder wants to revoke his, her or its proxy and delivering this written document to (i) the registered office of Shoppers Drug Mart at 243 Consumers Road, Toronto, Ontario, M2J 4W8, Attention: Vice President, Legal Affairs & Secretary, at any time up to 5:00 p.m. (Toronto time) on the last business day preceding the day of the Meeting, or any adjournment of the Meeting, or (ii) the Chair of the Meeting prior to the commencement of the Meeting on the day of the Meeting or any adjournment thereof, or in any other way permitted by law. If a Shoppers Drug Mart Shareholder registers with CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. at the Meeting and votes in person at the Meeting any proxy such Shoppers Drug Mart Shareholder has previously given will be revoked.

If a Shoppers Drug Mart Shareholder revokes his, her or its proxy and does not replace it with another form of proxy that is deposited with CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. on or before the deadline, 5:00 p.m. (Toronto time) on September 10, 2013, such Shoppers Drug Mart Shareholder may still vote his, her or its own Shoppers Drug Mart Shares in person at the Meeting provided such Shoppers Drug Mart Shareholder is a registered shareholder whose name appears on the shareholders' register of Shoppers Drug Mart.

A non-registered Shoppers Drug Mart Shareholder can revoke prior voting instructions by providing new instructions on a voting instruction form dated as at a later date, or at a later time in the case of voting by telephone or through the internet, provided that the new instructions are received by such Shoppers Drug Mart Shareholder's Intermediary in sufficient time for the Intermediary to act on them before 5:00 p.m. (Toronto time) on September 11, 2013, or 5:00 p.m. (Toronto time) on the last business day prior to any reconvened Meeting in the event of an adjournment of the Meeting. Otherwise, a Shoppers Drug Mart Shareholder should contact his, her or its Intermediary if such Shoppers Drug Mart Shareholder wants to revoke a proxy or change voting instructions, or if such Shoppers Drug Mart Shareholder wants to change his, her or its mind and wants to vote in person.

VOTING OF SHOPPERS DRUG MART SHARES BENEFICIALLY OWNED BY NON-REGISTERED SHAREHOLDERS

The information set out in this section is important to many Shoppers Drug Mart Shareholders as a substantial number of Shoppers Drug Mart Shareholders do not hold their Shoppers Drug Mart Shares in their own name.

If you are a non-registered Shoppers Drug Mart Shareholder, your Intermediary will send you a voting instruction form or proxy form with this Circular. This form will instruct the Intermediary how to vote your Shoppers Drug Mart Shares at the Meeting on your behalf. **You must follow the instructions from your Intermediary to vote.** The majority of Intermediaries now delegate responsibility for obtaining instructions from clients to Broadridge. Broadridge typically mails a Voting Instruction Form (“VIF”) to beneficial shareholders and asks beneficial shareholders to return the VIF to Broadridge (in some cases the completion of the VIF may be by telephone or the internet). Additionally, Shoppers Drug Mart may utilize the Broadridge QuickVote™ service to assist eligible beneficial holders of Shoppers Drug Mart Shares with voting their Shoppers Drug Mart Shares. There are two kinds of beneficial shareholders: those who object to their name being made known to the issuers of securities which they own (called “OBOs” for Objecting Beneficial Owners) and those who do not object (called “NOBOs” for Non-Objecting Beneficial Owners). NOBOs may be contacted by Laurel Hill to conveniently obtain a vote directly over the telephone using the Broadridge QuickVote™ service. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Shoppers Drug Mart Shares to be represented at the Meeting.

If you wish to vote in person at the Meeting or have another person attend and vote at the Meeting on your behalf, insert your name or such other person’s name in the space provided for the proxyholder appointment in the voting instruction form or proxy form, and return it as instructed by your Intermediary. Your Intermediary may have also provided you with the option of appointing yourself or someone else to attend and vote on your behalf at the Meeting through the internet. When you arrive at the Meeting, please register with our transfer agent, CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc.

Your Intermediary must receive your voting instructions in sufficient time for your Intermediary to act on them. **CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. must receive proxy vote instructions from your Intermediary by no later than 11:00 a.m. (Toronto time) on Tuesday, September 10, 2013 (or 11:00 a.m. (Toronto time) on the second last business day prior to any reconvened Meeting in the event of an adjournment of the Meeting). Shoppers Drug Mart reserves the right to accept late proxies and to waive the proxy cut-off, with or without notice, but is under no obligation to accept or reject any particular late proxy.**

Management of Shoppers Drug Mart does not intend to pay for Intermediaries to forward this Circular, the proxy form, or a voting instruction form, to objecting beneficial owners under National Instrument 54-101 - *Communication with Beneficial Owners of Securities of a Reporting Issuer*. The objecting beneficial owner will not receive the materials unless the objecting beneficial owner’s intermediary assumes the cost of delivery.

QUORUM

The quorum for the Meeting is two or more shareholders or proxyholders holding or representing not less than 20% of the Shoppers Drug Mart Shares entitled to be voted at the Meeting.

PRINCIPAL HOLDERS OF SHOPPERS DRUG MART SHARES

As of August 12, 2013, there were 200,055,534 Shoppers Drug Mart Shares issued and outstanding. Each Shoppers Drug Mart Share is entitled to one vote at a meeting of Shoppers Drug Mart Shareholders. As far as the directors and senior officers of Shoppers Drug Mart are aware, no single shareholder beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the Shoppers Drug Mart Shares, except as set out below.

To the knowledge of Shoppers Drug Mart, various accounts managed by Fidelity Management & Research Company, Pyramis Global Advisors, LLC, Pyramis Global Advisors Trust Company, Strategic Advisors Incorporated and FIL Limited own, in the aggregate, 23,159,248 Shoppers Drug Mart Shares, representing approximately 11.58% of all Shoppers Drug Mart Shares then outstanding.

THE ARRANGEMENT

BACKGROUND TO THE ARRANGEMENT

Since the time of its initial public offering in November 2001, Shoppers Drug Mart has regularly reviewed its overall corporate strategy and, from time to time, has considered various strategic options that might accelerate the achievement of its business plan or otherwise be in the best interests of Shoppers Drug Mart. This included a process in the Spring and Summer of 2010 whereby Shoppers Drug Mart, with the assistance of RBC Capital Markets, contacted a limited number of parties, including international pharmacy and retail companies and select private equity firms, with respect to their potential interest in undertaking a strategic transaction with Shoppers Drug Mart. Loblaw was contacted in connection with this process but declined to participate and did not submit a proposal. Following a careful review of the preliminary expressions of interest received, the Shoppers Drug Mart Board determined that the terms on which any transaction might be completed would not be in the best interests of Shoppers Drug Mart at that time.

On February 22, 2011, Mr. John Lacey, a director of Loblaw and GWL, contacted Mr. David Williams, who at that time was the Chair, Interim President and Chief Executive Officer of Shoppers Drug Mart, to convey Loblaw's interest in pursuing a business combination of the two companies. On March 1, 2011, Mr. Lacey, Mr. Paviter Binning, who at that time was the Chief Financial Officer of GWL (and who later became President of GWL in July 2011), Mr. Williams, Mr. Holger Kluge, then a director of Shoppers Drug Mart, and representatives of RBC Capital Markets met to discuss the strategic rationale for the proposed business combination.

On March 22, 2011, Loblaw presented a non-binding expression of interest that contemplated a "merger of equals" transaction under which Loblaw would acquire all of the issued and outstanding Shoppers Drug Mart Shares at a price of \$14.41 in cash and 0.7949 of a Loblaw Share for each outstanding Shoppers Drug Mart Share (the "**First Loblaw Proposal**"). At that time, this represented a \$45.00 implied transaction value per Shoppers Drug Mart Share based on the closing price of \$38.48 of the Loblaw Shares on the TSX on March 18, 2011, and a 14% premium to the closing price of \$39.48 of the Shoppers Drug Mart Shares on the TSX on March 18, 2011.

On April 3, 2011, Shoppers Drug Mart established a committee comprised of independent directors (the "**First Special Committee**") for the purpose of supervising Shoppers Drug Mart's consideration of a potential transaction with Loblaw. The First Special Committee consisted of Mr. Kluge as Chair, and Ms. Krystyna Hoeg and Mr. Derek Ridout.

Following a recommendation of the First Special Committee, the Shoppers Drug Mart Board determined that a strategic transaction with Loblaw was of potential interest and that Shoppers Drug Mart should continue a dialogue with Loblaw with the objective of determining whether Loblaw would be prepared to improve upon its indicated financial terms to a level that would warrant due diligence reviews by both parties and the negotiation of other transaction terms. On April 6, 2011, RBC Capital Markets, which had been retained as external financial advisor to Shoppers Drug Mart, contacted Bank of America Merrill Lynch, Loblaw's financial advisor, and informed them of this decision of the Shoppers Drug Mart Board.

On May 7, 2011, Mr. Galen G. Weston, the Executive Chairman of Loblaw, and Mr. Binning presented Mr. Williams, Mr. Kluge and representatives of RBC Capital Markets with a non-binding expression of interest in a transaction under which Loblaw would acquire all of the issued and outstanding Shoppers Drug Mart Shares at a price of \$15.39 in cash and 0.7802 of a Loblaw Share for each outstanding Shoppers Drug Mart Share, subject to satisfactory due diligence and board approval (the "**Second Loblaw Proposal**"). At the time, this represented a \$48.00 implied transaction value per Shoppers Drug Mart Share based on the closing price of \$41.79 of the Loblaw Shares on the TSX on May 6, 2011 and a 16% premium to the closing price of \$41.32 of the Shoppers Drug Mart Shares on the TSX on May 6, 2011.

Between May 7 and May 12, 2011, the First Special Committee and the Shoppers Drug Mart Board met a number of times to consider the Second Loblaw Proposal and the basis upon which Shoppers Drug Mart would be prepared to continue discussions between the two companies that could lead to a business combination transaction. These meetings included the advice and input of management, RBC Capital Markets and Osler, Hoskin & Harcourt LLP ("**Osler**"), Shoppers Drug Mart's external legal advisors. On May 13, 2011, Shoppers Drug Mart entered into a confidentiality agreement (the "**First Confidentiality Agreement**") with Loblaw and GWL, which contemplated mutual due diligence by the parties and included a "standstill" restriction pursuant to which each of Loblaw and GWL agreed not to, without the prior written authorization of the Shoppers Drug Mart Board, among other things, purchase any securities of Shoppers Drug Mart for a period of 12 months.

Between May 13, 2011 and June 6, 2011, Loblaw and Shoppers Drug Mart and their respective advisors conducted due diligence with respect to each other's business operations, and had preliminary discussions about the principal terms, financial and otherwise, to be contained in any transaction agreements. This due diligence exercise included consideration of potential synergies of the proposed transaction.

On June 6, 2011, Mr. Weston advised Messrs. Williams and Kluge that the board of directors of Loblaw had determined not to proceed any further in respect of the Second Loblaw Proposal. Shortly thereafter, the parties to the First Confidentiality Agreement provided notices to each other requiring the return or destruction of the confidential information previously exchanged, and no further discussions related to the Second Loblaw Proposal took place.

On October 3, 2011, Shoppers Drug Mart announced that Mr. Domenic Pilla had been appointed President, Chief Executive Officer and a director of Shoppers Drug Mart, effective November 1, 2011.

Over the course of 2012, the Shoppers Drug Mart Board and management continued to consider a broad range of strategic alternatives for Shoppers Drug Mart. These included a continuation of Shoppers Drug Mart's existing stand-alone business plan, an acquisition of another domestic pharmacy company, a strategic alliance or business combination transaction with an international retailer or pharmacy company, a business combination transaction with a Canadian grocery retailer, and an acquisition of various domestic and international companies that would have expanded Shoppers Drug Mart's lines of business. Following that review, representatives of Shoppers Drug Mart held exploratory discussions with a limited number of potential strategic counterparties in order to assess which opportunities may be available to Shoppers Drug Mart. Subsequent to these preliminary discussions, the Shoppers Drug Mart Board

determined that the terms on which any transaction might be completed would not be in the best interests of Shoppers Drug Mart.

On December 6, 2012, Loblaw announced its intention to create a real estate investment trust (“**REIT**”) to acquire a significant portion of Loblaw’s real estate assets and to sell units of the REIT by way of an initial public offering, to be completed in mid-2013. Following the announcement of the proposed creation of the REIT, the market value of the Loblaw Shares increased substantially.

On March 6, 2013, Messrs. Weston, Binning and Lacey met with Messrs. Kluge, Williams and Pilla and presented a non-binding written proposal to the Shoppers Drug Mart Board which contemplated a transaction under which Loblaw would acquire all of the issued and outstanding Shoppers Drug Mart Shares at a price of \$26.52 in cash and 0.5193 of a Loblaw Share for each outstanding Shoppers Drug Mart Share (the “**Third Loblaw Proposal**”). At that time, this represented a \$48.00 implied transaction value based on the closing price of \$41.36 of the Loblaw Shares on the TSX on March 4, 2013, and a 12% premium to the closing price of \$42.98 of the Shoppers Drug Mart Shares on the TSX on March 4, 2013.

On March 8, 2013, Mr. Kluge, after consultation with several directors of Shoppers Drug Mart and representatives of RBC Capital Markets regarding the proposed financial terms, indicated to Mr. Weston that the Third Loblaw Proposal was not a basis for Shoppers Drug Mart to pursue further discussions.

On April 2, 2013, Loblaw submitted a further revised non-binding written indication of interest to the Shoppers Drug Mart Board which contemplated a transaction under which Loblaw would acquire all of the issued and outstanding Shoppers Drug Mart Shares at a price of \$26.76 in cash and 0.62 of a Loblaw Share for each Shoppers Drug Mart Share, subject to a maximum cash consideration amount of approximately \$5.4 billion (the “**Fourth Loblaw Proposal**”). At that time, this represented a \$53.00 implied transaction value based on the closing price of \$42.33 of the Loblaw Shares on the TSX on April 1, 2013, and a 23% premium to the closing price of \$42.99 of the Shoppers Drug Mart Shares on the TSX on April 1, 2013. The Fourth Loblaw Proposal contemplated a three week exclusivity period in which the parties would conduct reciprocal due diligence and negotiate transaction agreements. The Fourth Loblaw Proposal also contemplated a \$300 million termination payment and that regulatory approvals (including Competition Act Approval) would be a condition to closing.

On April 15, 2013, the Shoppers Drug Mart Board reviewed and considered the Fourth Loblaw Proposal and received advice from RBC Capital Markets. Following this review the Shoppers Drug Mart Board established a committee comprised of independent directors (the “**Special Committee**”) for the purposes of supervising Shoppers Drug Mart’s consideration of the Fourth Loblaw Proposal and any subsequent developments. The Special Committee consisted of Mr. Ridout as chair, and Mr. Jim Hankinson and Ms. Beth Pritchard. Mr. Kluge was invited to attend meetings of the Special Committee on an ex-officio basis.

On April 19, 2013, the Special Committee met to consider the Fourth Loblaw Proposal in detail. The Special Committee received input from management and advice from RBC Capital Markets and Osler. The Special Committee received a presentation from RBC Capital Markets as to the financial terms of the Fourth Loblaw Proposal. The Special Committee also considered potential transaction synergies, the expected performance of Shoppers Drug Mart based on its stand-alone business plan, the requested due diligence process and the prior history of Shoppers Drug Mart’s negotiations with Loblaw, including the terminated process relating to the Second Loblaw Proposal. Following this review, the Special Committee concluded that the Fourth Loblaw Proposal was not a basis for Shoppers Drug Mart to pursue further discussions.

At this time, the Special Committee also reviewed the parties with which Shoppers Drug Mart had interacted over the prior three years in respect of potential strategic transactions and determined that there

remained other parties that could have an interest in pursuing a transaction with Shoppers Drug Mart on terms that could be in the best interests of Shoppers Drug Mart. On April 24, 2013, the Special Committee advised the Shoppers Drug Mart Board of its recommendation in respect of the Fourth Loblaw Proposal and of the merit of Shoppers Drug Mart contacting such other parties. The Shoppers Drug Mart Board accepted these recommendations of the Special Committee. Accordingly, on April 25, 2013, Messrs. Kluge and Pilla met with Messrs. Weston and Binning and advised that the Shoppers Drug Mart Board had rejected the Fourth Loblaw Proposal.

Between late April 2013 and July 10, 2013, representatives of Shoppers Drug Mart engaged in exploratory discussions with a small number of other parties previously identified as potential counterparties to a business combination or other strategic transaction with Shoppers Drug Mart. While certain of those parties expressed an interest in pursuing longer-term discussions with Shoppers Drug Mart relating to a potential business combination or other strategic transaction, the Shoppers Drug Mart Board determined that none presented an opportunity that was likely to lead in the near term to a transaction which would be as attractive as a business combination with Loblaw and that would reflect an appropriate change of control premium and level of execution risk.

On July 5, 2013, Loblaw announced that Choice Properties had completed a \$400 million initial public offering of trust units, a \$200 million offering of units to GWL and an offering of \$600 million aggregate principal amount of senior unsecured debentures. In connection with the closing of the initial public offering, Loblaw sold a portfolio of 425 properties, representing approximately 35.3 million square feet of gross leasable area, indirectly to Choice Properties for a total purchase price of approximately \$7 billion.

On the afternoon of July 10, 2013, the Shoppers Drug Mart Board was meeting at its annual offsite strategic planning session when Mr. Kluge received a telephone call from Mr. Weston, who indicated that he wished to meet with Mr. Kluge.

Mr. Kluge and Mr. Weston met on the morning of July 11, 2013, at which time Mr. Weston presented a written non-binding indication of interest that contemplated an acquisition of all of the issued and outstanding Shoppers Drug Mart Shares at a price of \$33.18 in cash and 0.5965 of a Loblaw Share for each outstanding Shoppers Drug Mart Share, subject to a maximum cash consideration amount of approximately \$6.6 billion and a maximum share consideration of 119.4 million Loblaw Shares (the “**Fifth Loblaw Proposal**”). At that time, this represented a \$61.25 implied transaction value per Shoppers Drug Mart Share based on the closing price of \$47.06 of the Loblaw Shares on the TSX on July 10, 2013, and a 27% premium to the closing price of \$48.14 of the Shoppers Drug Mart Shares on the TSX on July 10, 2013. Mr. Weston also indicated that Loblaw was prepared to proceed without any further due diligence review period with respect to Shoppers Drug Mart, and that Loblaw was prepared to commit to taking all such actions as may be necessary to secure Competition Act Approval. Mr. Weston indicated that Loblaw wished to proceed on an expedited basis to settle the transaction terms and announce a transaction as quickly as possible. Shortly after the conclusion of the meeting between Mr. Weston and Mr. Kluge, copies of draft transaction agreements were provided to Shoppers Drug Mart’s advisors by Torys LLP, Loblaw’s external legal advisors. Also on the morning of July 11, 2013, Mr. Binning and a representative of Bank of America Merrill Lynch met with representatives of RBC Capital Markets to present the Fifth Loblaw Proposal.

The Special Committee held a meeting on the afternoon of July 11, 2013, and had preliminary discussions with management, RBC Capital Markets and Osler regarding the terms of the Fifth Loblaw Proposal and the process for responding to the proposal.

On the afternoon of July 12, 2013, the Special Committee met to consider the terms of the Fifth Loblaw Proposal in more detail. The Special Committee received input from management and advice from RBC Capital Markets regarding the financial terms of the proposal and discussed with each of them and with

representatives of Osler the non-financial terms of the proposal as set forth in the draft transaction agreements provided by Loblaw, and the principal issues raised by each. Particular importance was placed on: (i) the significantly improved financial terms contained in the Fifth Loblaw Proposal relative to the prior Loblaw proposals; (ii) the level of premium represented by such financial terms relative to the then current market price of the Shoppers Drug Mart Shares, the multiples implied by such financial terms compared to multiples paid in precedent transactions, and the value per Shoppers Drug Mart Share represented by such financial terms compared to a discounted cash flow analysis of the Shoppers Drug Mart stand-alone business plan; (iii) the reduced level of execution risk given the lack of a diligence review period to signing; (iv) the regulatory covenants proposed by Loblaw; (v) the considerable synergies available to the Combined Company and the associated potential positive impact on the trading value of the Loblaw Shares and the value of the Loblaw Share component of the Fifth Loblaw Proposal; (vi) Loblaw's financing arrangements for the cash portion of the proposed consideration; (vii) the articulated support of GWL for the proposed transaction; and (viii) that, in light of Shoppers Drug Mart's discussions with other potential transaction counterparties over the prior three years and the financial terms contained in the Fifth Loblaw Proposal, such financial terms represented a pre-emptive price for the Shoppers Drug Mart Shares.

Over the course of the evening of July 12, 2013 and the morning of July 13, 2013, the terms of a new confidentiality agreement among Shoppers Drug Mart, Loblaw and GWL (the "**Confidentiality Agreement**") were settled, and the Confidentiality Agreement was signed on July 13, 2013. Over the course of the day on July 13, 2013, senior management representatives of Shoppers Drug Mart, Loblaw and GWL, along with Messrs. Ridout and Kluge on behalf of the Special Committee and the Shoppers Drug Mart Board, respectively, Mr. Weston and Mr. Lacey, together with representatives of RBC Capital Markets and Bank of America Merrill Lynch, met at the offices of Osler to provide each other with detailed management presentations with respect to their respective operations, business plans, and expected financial results, to validate the absence of material legal issues, and to validate mutual assumptions regarding potential synergies and generic drug reform developments.

Later on July 13, 2013, following the management presentations, Messrs. Kluge, Ridout and Pilla updated the Special Committee and then subsequently the Shoppers Drug Mart Board in respect of the management presentations, and indicated their belief in the strategic merits of the transaction and that the long-term strategic plans of the two companies were highly complementary. Mr. Kluge also discussed the proposed corporate structure, which contemplated Shoppers Drug Mart operating as a separate division of Loblaw with Mr. Pilla reporting directly to Mr. Vicente Trius, the President of Loblaw. The Special Committee and the Shoppers Drug Mart Board received a presentation from RBC Capital Markets as to the financial terms of the Fifth Loblaw Proposal and were briefed by Osler with respect to a list of principal issues resulting from the draft transaction agreements. Following a discussion of these matters, the Special Committee made a recommendation to the Shoppers Drug Mart Board that negotiations with Loblaw continue, subject to an increase in the consideration offered under the Fifth Loblaw Proposal and a successful resolution to the principal non-financial terms of the Fifth Loblaw Proposal, and in particular, those terms that related to the conditionality of any transaction. The Shoppers Drug Mart Board accepted these recommendations of the Special Committee as the basis for continued discussions.

Following the meeting of the Shoppers Drug Mart Board, Mr. Kluge spoke with Mr. Weston and advised him that the Shoppers Drug Mart Board was in favour of continuing discussions subject to obtaining an increase in the consideration offered under the Fifth Loblaw Proposal. Mr. Kluge also indicated that a successful resolution of the principal non-financial terms was important to the Shoppers Drug Mart Board. Separately, representatives of RBC Capital Markets met with representatives of Bank of America Merrill Lynch to request that Loblaw increase the consideration offered under the Fifth Loblaw Proposal.

Later in the evening on July 13, 2013, Mr. Weston advised Mr. Kluge that Loblaw was not prepared to increase the consideration offered under the Fifth Loblaw Proposal, as Loblaw believed that the offered

consideration represented a fair and compelling price for the Shoppers Drug Mart Shares. Mr. Kluge reiterated that it was also important to the Shoppers Drug Mart Board that the non-financial terms be successfully resolved and requested that Mr. Weston instruct Loblaw's legal advisors accordingly. Discussions subsequently ensued with Loblaw in respect of the Fifth Loblaw Proposal. During these discussions Mr. Weston confirmed to Mr. Kluge that the board of directors of the Combined Company would include four representatives from Shoppers Drug Mart, including Mr. Pilla.

Over the course of the evening on July 13, 2013 and during the day on July 14, 2013, representatives of Shoppers Drug Mart and Loblaw, assisted by their respective legal advisors, negotiated the remaining outstanding terms of the transaction agreements.

On the afternoon of July 14, 2013, the Special Committee met to receive an update as to the status of the transaction negotiations, including the response Mr. Kluge received from Mr. Weston regarding the request that Loblaw increase the consideration offered under the Fifth Loblaw Proposal. At that time, Osler updated the Special Committee on the status of the outstanding non-financial matters and the balance of the transaction documentation, including in respect of the remaining non-financial matters which had not yet been definitively resolved. Mr. Kluge then called Mr. Weston to seek to resolve those remaining non-financial matters before the meeting of the Shoppers Drug Mart Board that was to be held later that afternoon. The members of the Special Committee expressed their support for the final transaction terms as understood, and RBC Capital Markets indicated to the Special Committee that it was prepared to provide a verbal opinion to the effect that the consideration to be offered under the Fifth Loblaw Proposal was fair, from a financial point of view, to the Shoppers Drug Mart Shareholders.

Later on the afternoon of July 14, 2013, the Shoppers Drug Mart Board met. During that meeting Mr. Kluge received a telephone call from Mr. Weston in which Mr. Weston confirmed that Loblaw was prepared to resolve the remaining non-financial issues on terms satisfactory to Shoppers Drug Mart. Following a briefing by the members of the Special Committee and Shoppers Drug Mart's external financial and legal advisors regarding the status of negotiations, and following receipt of a recommendation from the Special Committee and a verbal opinion from RBC Capital Markets to the effect that the consideration to be offered under the Fifth Loblaw Proposal was fair, from a financial point of view, to the Shoppers Drug Mart Shareholders, the Shoppers Drug Mart Board unanimously determined that the Arrangement was in the best interests of Shoppers Drug Mart, approved the entering into of the Arrangement Agreement and the Voting Agreement, and resolved to recommend that Shoppers Drug Mart Shareholders vote for the Arrangement Resolution.

Later in the evening of July 14, 2013, the parties executed the Arrangement Agreement and the Voting Agreement, and a press release announcing the Arrangement was disseminated before the opening of financial markets on Monday, July 15, 2013.

RECOMMENDATION OF THE SPECIAL COMMITTEE

The Shoppers Drug Mart Board established the Special Committee to, among other things, review and consider the Arrangement and make recommendations to the Shoppers Drug Mart Board regarding the Arrangement. Shoppers Drug Mart retained RBC Capital Markets to act as financial advisor to Shoppers Drug Mart and to provide the RBC Capital Markets Fairness Opinion. RBC Capital Markets has given an opinion to the effect that, as of the date thereof and subject to the assumptions, limitations, qualifications and other matters contained therein, the consideration under the Arrangement is fair, from a financial point of view, to Shoppers Drug Mart Shareholders.

The Special Committee, having undertaken a thorough review of, and having carefully considered, information concerning Shoppers Drug Mart, Loblaw and the Arrangement, and after consulting with financial and legal advisors, has unanimously determined that the Arrangement is in the best interests of

Shoppers Drug Mart (considering the interests of all affected stakeholders) and is fair to Shoppers Drug Mart Shareholders. **Accordingly, the Special Committee unanimously recommended that the Shoppers Drug Mart Board approve the Arrangement and recommends that the Shoppers Drug Mart Shareholders vote FOR the Arrangement Resolution.**

RECOMMENDATION OF THE SHOPPERS DRUG MART BOARD

After careful consideration, and following the unanimous recommendations of the Special Committee, the Shoppers Drug Mart Board unanimously determined that the Arrangement is in the best interests of Shoppers Drug Mart. **The Shoppers Drug Mart Board unanimously recommends that Shoppers Drug Mart Shareholders vote FOR the Arrangement Resolution.**

REASONS FOR THE RECOMMENDATIONS

In making their respective recommendations, the Special Committee and the Shoppers Drug Mart Board consulted with Shoppers Drug Mart's management, RBC Capital Markets and Osler, reviewed a significant amount of information and considered a number of factors, including those listed below. The following includes forward-looking information and readers are cautioned that actual results may vary.

- **Premium to Shoppers Drug Mart Shareholders.** The Arrangement values the equity of Shoppers Drug Mart on a fully-diluted basis at approximately \$12.4 billion or \$61.54 per Shoppers Drug Mart Share (based on the closing price of the Loblaw Shares on the TSX of \$47.55 on July 12, 2013). This represents a premium of approximately 29.4% over Shoppers Drug Mart's 20-day volume-weighted average trading price through July 12, 2013, the last trading day prior to the public announcement by Shoppers Drug Mart and Loblaw of the Arrangement.
- **Ability to Elect Form of Consideration.** Shoppers Drug Mart Shareholders will have the option to receive Loblaw Shares and/or cash, at their election, subject to pro-ration.
- **Combined Strength of Loblaw and Shoppers Drug Mart.** Shoppers Drug Mart believes that the continued share ownership in the Combined Company offered by the Arrangement would result in a number of benefits to Shoppers Drug Mart Shareholders, including the following:
 - *Participation by Shoppers Drug Mart Shareholders in Future Growth.* Shoppers Drug Mart Shareholders who receive Loblaw Shares pursuant to the Arrangement will have the opportunity to participate in any future increase in value of the Combined Company. Following the completion of the Arrangement, Shoppers Drug Mart Shareholders will own approximately 29% of the common shares of the Combined Company, with existing Loblaw shareholders (other than GWL) owning approximately 25% of the common shares of the Combined Company and GWL owning approximately 46% of the common shares of the Combined Company.
 - *Significant Anticipated Synergies.* Shoppers Drug Mart expects that the Combined Company will deliver significant savings through increased scale and operating efficiencies. Management of Shoppers Drug Mart and Loblaw expect the combination to yield annual synergies of \$300 million in the third full year following closing (net of related costs), phased in evenly over the three years.
 - *Value Creation.* The Arrangement is expected to lead to double-digit accretion, excluding the impact of amortization of intangible assets and the impact of other purchase price valuation adjustments related to the transaction, in Loblaw earnings per share in the first year. See "Information Relating to the Combined Company — Description of the Business

of the Combined Company — Significant Benefits from Synergies”, “Forward-Looking Statements” and “Risks Relating to the Arrangement and the Combined Company”.

- *Complementary Assets.* The Combined Company will benefit from the complementary assets held by Loblaw and Shoppers Drug Mart. Loblaw has Canada’s largest grocery retail footprint, including approximately 500 pharmacies, and Shoppers Drug Mart has the largest drugstore network in Canada, including prime urban locations. Operating in the various grocery and drugstore formats, the Combined Company will be uniquely positioned to provide its customers with the right shopping experience in the right locations at the right time.
- *Enhanced Competitive Position and Increased Scale.* The Combined Company will be positioned to capitalize on important consumer trends, including the emphasis on health, wellness and nutrition and the imperatives of value and convenience. The combination of the two companies will significantly enhance the customer experience by offering greater assortment, service, value and convenience while preserving the unique shopping experiences that make both companies leaders. The Combined Company will also enjoy a scale and flexibility that will place the Combined Company in a position of strength as it faces growing competition in the Canadian marketplace.
- *Increased Market Liquidity.* Upon the completion of the Arrangement, the Combined Company will have a meaningfully enhanced position in the S&P/TSX Composite Index relative to either Shoppers Drug Mart’s or Loblaw’s position today. The Combined Company will also have a broader shareholder base with increased market liquidity and a larger public float. On a pro forma basis as of July 12, 2013, the Combined Company had a market capitalization of approximately \$20 billion and a public float of approximately \$11 billion, by far the largest of any retail or consumer stock traded on the TSX.
- *Corporate Governance and Operational Structure.* The board of directors of Loblaw will be reconstituted upon the closing of the Arrangement to consist of fourteen directors, including four directors of Shoppers Drug Mart, including Mr. Domenic Pilla, with the remaining three to be identified and agreed upon by Shoppers Drug Mart and Loblaw. In addition, Loblaw has indicated that it intends to operate Shoppers Drug Mart as a distinct division, retaining its name, Associate-owner structure, and unique, compelling shopping experience. Mr. Pilla will continue as President of Shoppers Drug Mart, bringing both stability and years of retail and pharmacy experience to the Combined Company.

For further detail regarding the Combined Company, see “Information Relating to the Combined Company”.

- **Advice from RBC Capital Markets.** In the opinion of RBC Capital Markets, as at the date of the RBC Capital Markets Fairness Opinion, and subject to the assumptions, limitations, qualifications and other matters contained therein, the consideration under the Arrangement is fair, from a financial point of view, to Shoppers Drug Mart Shareholders. See “The Arrangement — RBC Capital Markets Fairness Opinion” and Appendix H “RBC Capital Markets Fairness Opinion”.
- **Ability to Respond to Superior Proposals.** Notwithstanding the limitations contained in the Arrangement Agreement on Shoppers Drug Mart’s ability to solicit interest from third parties, the Arrangement Agreement allows the Shoppers Drug Mart Board to engage in discussions or negotiations with respect to an unsolicited written bona fide Acquisition Proposal at any time prior to the approval of the Arrangement Resolution by Shoppers Drug Mart Shareholders and after the Shoppers Drug Mart Board determines, in good faith that such Acquisition Proposal could

reasonably be expected to lead to a Superior Proposal. See “The Arrangement Agreement — Covenants — Shoppers Drug Mart Non-Solicitation”.

- **Tax Deferred Rollover.** Shareholders who hold their Shoppers Drug Mart Shares as capital property, who are Eligible Holders who receive Loblaw Shares under the Arrangement and who properly complete and file the required election, should generally benefit from a full or partial tax deferred rollover in respect of capital gains that would otherwise be realized on the disposition of Shoppers Drug Mart Shares. See “Certain Canadian Federal Income Tax Considerations”.

The Special Committee’s and the Shoppers Drug Mart Board’s reasons contain forward-looking information, and are subject to various risks and assumptions. See “Forward-Looking Statements”, “Risks Relating to the Arrangement and the Combined Company”, “Information Relating to Shoppers Drug Mart — Risk Factors” and “Information Relating to Loblaw — Risk Factors”.

The Special Committee and the Shoppers Drug Mart Board also considered a number of other factors of which Shoppers Drug Mart Shareholders should be aware in determining whether or not to vote for the Arrangement Resolution, including the following:

- The conditions attached to the Arrangement, including the fact that the Arrangement remains subject to certain outstanding regulatory approvals, Court approval and the approval of the Shoppers Drug Mart Shareholders.
- The fact that the Arrangement Resolution must be approved by the affirmative vote of at least two-thirds of the votes cast on the Arrangement Resolution by Shoppers Drug Mart Shareholders present in person or represented by proxy at the Meeting, and the fact that if a higher offer is made to Shoppers Drug Mart Shareholders prior to the Meeting, Shoppers Drug Mart Shareholders are free to support such higher offer and vote against the Arrangement Resolution.
- The Arrangement must be approved by the Court, which will consider, among other things, the fairness of the Arrangement to Shoppers Drug Mart Shareholders.
- The availability of rights of dissent to the registered Shoppers Drug Mart Shareholders with respect to the Arrangement.
- The low level of execution risk associated with the regulatory aspects of the transaction, and the fact that Loblaw has agreed under the Arrangement Agreement to use its best efforts to obtain Competition Act Approval including effecting such remedies or actions as are necessary to obtain that approval.

The foregoing summary of the information and factors considered by the Special Committee and the Shoppers Drug Mart Board is not intended to be exhaustive, but includes the material information and factors considered by the Special Committee and the Shoppers Drug Mart Board in their consideration of the Arrangement. In view of the variety of factors and the amount of information considered in connection with their evaluation of the Arrangement, the Special Committee and the Shoppers Drug Mart Board did not find it practicable to, and did not, quantify or otherwise attempt to assign any relative weight to each of the specific factors considered in reaching their conclusion and recommendation. The recommendation of the Special Committee and the recommendation of the Shoppers Drug Mart Board were made after consideration of all of the above-noted factors and in light of their own knowledge of the business, financial condition and prospects of Shoppers Drug Mart and was based upon the advice of the Shoppers Drug Mart Board’s financial advisors and legal advisors. In addition, individual members of the Shoppers Drug Mart Board may have assigned different weights to different factors.

RBC CAPITAL MARKETS FAIRNESS OPINION

RBC Capital Markets was engaged by Shoppers Drug Mart pursuant to an engagement letter dated April 29, 2013 as its financial advisor to advise and assist Shoppers Drug Mart with respect to a review of strategic alternatives available to Shoppers Drug Mart in connection with a potential transaction involving the direct or indirect sale or disposition of Shoppers Drug Mart including, if requested, providing an opinion as to the fairness, from a financial point of view, of the consideration to be received in respect of any such transaction. The Shoppers Drug Mart Board requested that RBC Capital Markets provide an opinion to the Shoppers Drug Mart Board as to the fairness, from a financial point of view, of the consideration under the Arrangement to Shoppers Drug Mart Shareholders. RBC Capital Markets delivered its opinion to the Shoppers Drug Mart Board to the effect that, as of July 14, 2013, and based upon and subject to the assumptions, limitations, qualifications and other matters stated in the RBC Capital Markets Fairness Opinion, RBC Capital Markets is of the opinion that the consideration under the Arrangement is fair, from a financial point of view, to Shoppers Drug Mart Shareholders. A copy of the RBC Capital Markets Fairness Opinion is attached as Appendix H.

In rendering the RBC Capital Markets Fairness Opinion, RBC Capital Markets relied, without independent verification, on financial and other information that was obtained by RBC Capital Markets from public sources, senior management of Shoppers Drug Mart, Loblaw and their respective consultants and advisors. RBC Capital Markets assumed that this information was complete, accurate and fairly presented.

RBC Capital Markets is one of Canada's largest investment banking firms, with operations in all facets of corporate and government finance, corporate banking, mergers and acquisitions, equity and fixed income sales and trading and investment research. RBC Capital Markets and its affiliates also have significant operations in the United States and internationally. The RBC Capital Markets Fairness Opinion represents the opinion of RBC Capital Markets and the form and content of the RBC Capital Markets Fairness Opinion have been approved for release by a committee of its directors, each of whom is experienced in merger, acquisition, divestiture and fairness opinion matters.

The RBC Capital Markets Fairness Opinion does not constitute a recommendation to Shoppers Drug Mart Shareholders with respect to the Arrangement Resolution. The Special Committee and the Shoppers Drug Mart Board urge Shoppers Drug Mart Shareholders to read the RBC Capital Markets Fairness Opinion carefully and in its entirety.

The full text of the RBC Capital Markets Fairness Opinion, which sets forth the assumptions made, general procedures followed, matters considered and limitations on the review undertaken by RBC Capital Markets, is reproduced as Appendix H to this Circular. This summary of the RBC Capital Markets Fairness Opinion is qualified in its entirety by reference to the full text of the RBC Capital Markets Fairness Opinion. Shoppers Drug Mart has agreed to pay RBC Capital Markets a fee for providing its opinion and for its financial advisory services which is, in part, contingent on the successful completion of the Arrangement. Shoppers Drug Mart has also agreed to reimburse the expenses of RBC Capital Markets and to indemnify RBC Capital Markets in respect of certain liabilities that may be incurred by RBC Capital Markets in connection with the provision of its services.

DESCRIPTION OF THE ARRANGEMENT

The following description of the Arrangement is qualified in its entirety by reference to the full text of the Plan of Arrangement, which is attached as Appendix E to this Circular.

If approved, the Arrangement will become effective at the Effective Time (which is expected to be at 12:01 a.m. (Toronto time) on a date to be determined not later than April 14, 2014). At the Effective

Time, the following events or transactions shall be deemed to occur in the following sequence without any further act or formality:

- (a) the Shoppers Drug Mart Shareholder Rights Plan shall be terminated (and all rights issued thereunder shall expire) and shall be of no further force or effect;
- (b) each outstanding Shoppers Drug Mart Share held by a Validly Dissenting Shoppers Drug Mart Shareholder shall be deemed to be transferred by the holder thereof to Loblaw free and clear of all liens, claims and encumbrances, and each Validly Dissenting Shoppers Drug Mart Shareholder shall cease to have any rights as a Shoppers Drug Mart Shareholder other than the right to be paid the fair value of such holder's Shoppers Drug Mart Shares by Loblaw in accordance with Article 4 of the Plan of Arrangement, and the name of such holder shall be removed from the register of holders of Shoppers Drug Mart Shares, and Loblaw shall be recorded as the registered holder of the Shoppers Drug Mart Shares so transferred and shall be deemed to be the legal and beneficial owner thereof, free and clear of any liens, claims or encumbrances;
- (c) simultaneously with the exchange referred to in paragraph (f) below, each Vested Shoppers Drug Mart RSU shall, without any act or formality on the part of the holder thereof, be disposed of and surrendered by the holder thereof, to Shoppers Drug Mart in exchange for a cash payment (net of any applicable withholdings) equal to (A) the number of Shoppers Drug Mart Shares subject to the Vested Shoppers Drug Mart RSU immediately prior to the Effective Time, multiplied by (B) the fair market value of a Shoppers Drug Mart Share immediately prior to the Effective Time determined in accordance with the terms of the Shoppers Drug Mart RSU Plans, as applicable;
- (d) simultaneously with the exchange referred to in paragraph (f) below, each Unvested Shoppers Drug Mart Share Award shall be continued on the same terms and conditions as were applicable immediately prior to the Effective Time, except that, pursuant to the terms of the Shoppers Drug Mart RSU Plans, the Shoppers Drug Mart DSU Plan and the Shoppers Drug Mart CEO DSU Plan, as applicable, the terms of such Unvested Shoppers Drug Mart Share Awards shall be amended so as to substitute for the Shoppers Drug Mart Shares subject to such Unvested Shoppers Drug Mart Share Awards such number of Loblaw Shares equal to (A) the number of Shoppers Drug Mart Shares subject to the Unvested Shoppers Drug Mart Share Awards immediately prior to the Effective Time, multiplied by (B) the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares;
- (e) simultaneously with the exchange referred to in paragraph (f) below, each Shoppers Drug Mart Option outstanding at the Effective Time (whether vested or unvested) will be exchanged for a Replacement Option to acquire such number of Loblaw Shares as is equal to: (A) that number of Shoppers Drug Mart Shares that were issuable upon exercise of such Shoppers Drug Mart Option immediately prior to the Effective Time, multiplied by (B) the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares, at an exercise price per Loblaw Share equal to the greater of the quotient determined by dividing: (X) the exercise price per Shoppers Drug Mart Share at which such Shoppers Drug Mart Option was exercisable immediately prior to the Effective Time, by (Y) the Exchange Ratio, rounded up to the nearest whole cent, and such minimum amount that meets the requirements of paragraph 7(1.4)(c) of the ITA. All terms and conditions of a Replacement Option, including the term to expiry, vesting, conditions to and manner of exercising, shall be the same as the Shoppers Drug Mart Option for which it was exchanged, and any certificate or option agreement previously

evidencing the Shoppers Drug Mart Option shall thereafter evidence and be deemed to evidence such Replacement Option;

- (f) each outstanding Shoppers Drug Mart Share (other than those held by Validly Dissenting Shoppers Drug Mart Shareholders), shall be transferred by the holder thereof to Loblaw in accordance with the election or deemed election of such holder pursuant to the Plan of Arrangement for cash and/or Loblaw Shares in the amounts as calculated in accordance with the Plan of Arrangement and the name of such holder shall be removed from the register of holders of Shoppers Drug Mart Shares and, to the extent such holder has elected to or is deemed to have elected to receive the Share Consideration, added to the register of holders of Loblaw Shares, and Loblaw shall be recorded as the registered holder of the Shoppers Drug Mart Share so exchanged and shall be deemed to be the legal and beneficial owner thereof, free and clear of any liens, claims or encumbrances; and
- (g) the Shoppers Drug Mart Share Plan and the Shoppers Drug Mart Predecessor Plans shall be terminated (and all rights issued thereunder shall expire) and shall be of no further force or effect.

PROCEDURE FOR THE ARRANGEMENT TO BECOME EFFECTIVE

The Arrangement is proposed to be carried out pursuant to section 192 of the CBCA. The following procedural steps must be taken in order for the Arrangement to become effective:

- the Court must grant the Final Order approving the Arrangement; and
- all conditions precedent to the Arrangement further described in the Arrangement Agreement must be satisfied or waived by the appropriate party.

SHOPPERS DRUG MART SHAREHOLDER APPROVAL

The Shoppers Drug Mart Board recommends that Shoppers Drug Mart Shareholders vote FOR the Arrangement Resolution. To be effective, the Arrangement Resolution must be approved, with or without variation, by the affirmative vote of at least two-thirds of the votes cast on the Arrangement Resolution by Shoppers Drug Mart Shareholders present in person or represented by proxy at the Meeting.

LOBLAW SHAREHOLDER APPROVAL

Pursuant to section 611(c) of the Toronto Stock Exchange Company Manual, the Arrangement requires the approval of Loblaw shareholders by a majority vote, as the number of Loblaw Shares to be issued in the Arrangement exceeds 25% of the total number of outstanding Loblaw Shares. GWL, which has voting ownership of approximately 63% of the Loblaw Shares, has provided the TSX with written consent confirming that it is familiar with the terms of the Arrangement and is in favour of the Arrangement, which satisfies the shareholder approval requirements of the TSX.

GWL VOTING AGREEMENT

On July 14, 2013, Loblaw, Shoppers Drug Mart and GWL entered into the Voting Agreement, pursuant to which GWL has agreed, at any meeting of the Loblaw Shareholders or with respect to any consent or approval subject to the terms and conditions therein, to:

- if requested by Loblaw or by Shoppers Drug Mart, provide evidence of its approval of the Arrangement (and any actions required in furtherance thereof, including the issuance of the Loblaw Shares) to the TSX, in form and substance satisfactory to Loblaw and Shoppers Drug Mart, to satisfy the requirements of section 611 of the TSX Company Manual;
- vote (or cause to be voted) all of the Subject Shares held by GWL at any meeting of the holders of Loblaw Shares, and in any action by written consent of the holders of Loblaw Shares (unless and only then to the extent prohibited by law):
 - in favour of the approval, consent, ratification and adoption of the Arrangement (and any actions required in furtherance thereof) and all other resolutions to be put to the meeting of holders of Loblaw Shares in respect of the Arrangement as contained in the Arrangement Agreement; and
 - against any proposed action by Loblaw, its shareholders, any of Loblaw's Subsidiaries or any other Person: (A) in respect of any corporate transaction, such as a merger, amalgamation, arrangement, rights offering, reorganization, recapitalization, liquidation or take-over bid or similar transaction involving Loblaw or Loblaw Shares other than the Arrangement; and (B) which might reasonably be regarded as being directed towards or likely to prevent or delay the implementation or the successful completion of the Arrangement, including, without limitation, any Acquisition Proposal in respect of Loblaw.

The Voting Agreement also prohibits GWL from:

- in any manner, directly or indirectly, through any officer, director, employee, representative (including for greater certainty any financial or other advisors) or agent or otherwise (as applicable), making, soliciting, assisting, initiating, encouraging or otherwise facilitating any inquiries or proposals regarding an Acquisition Proposal in respect of Loblaw or Shoppers Drug Mart, participating in any discussions or negotiations regarding any Acquisition Proposal in respect of Loblaw or Shoppers Drug Mart, or otherwise co-operating in any way with, assisting or participating in, or facilitating or encouraging any effort or attempt by any other Person to do or seek to do any of the foregoing;
- soliciting or arranging or providing assistance to any other Person to arrange for the solicitation of or purchases of or offers to sell Loblaw Shares or acting in concert or jointly with any other Person for the purpose of acquiring Loblaw Shares for the purpose of affecting the control of Loblaw;
- optioning, selling, assigning, disposing of, pledging, encumbering, granting a security interest in or otherwise conveying any Subject Shares or any right or interest therein, or agreeing to do any of the foregoing unless, following any such transaction, GWL retains the sole right to vote all the Subject Shares and GWL continues to directly and indirectly own more than 50% of the Loblaw Shares; or
- exercising any securityholder rights or remedies available at common law or pursuant to applicable Law, or taking any other action of any kind, in each case which would reasonably be regarded as likely to delay or interfere with the completion of, the transactions contemplated by the Arrangement Agreement.

The Voting Agreement will terminate upon the earlier of (a) the Effective Time, and (b) the termination of the Arrangement Agreement in accordance with the terms thereof.

FINANCING THE TRANSACTION

Loblaw intends to finance the Cash Consideration to be paid to Shoppers Drug Mart Shareholders under the terms of the Arrangement with: (a) available cash resources; (b) committed bank facilities fully underwritten by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A, Canada Branch and Bank of America, N.A.; and (c) the proceeds from the Private Placement.

Concurrently with the execution and delivery of the Arrangement Agreement, Loblaw delivered to Shoppers Drug Mart a copy of the executed Loblaw Commitment Letter, evidencing the commitment of Bank of America, N.A., Bank of America, N.A., Canada Branch and Merrill Lynch, Pierce, Fenner & Smith Incorporated to provide Loblaw with the Loblaw Debt Financing, subject to the terms and conditions set forth therein. Loblaw has represented in the Arrangement Agreement that upon receipt of the proceeds contemplated by the Loblaw Commitment Letter, Loblaw will have sufficient cash funds (including available cash held by Shoppers Drug Mart and its Subsidiaries) and borrowing capacity to pay all amounts to be paid by it pursuant to the Arrangement Agreement and to perform its obligations thereunder.

Loblaw has agreed under the Arrangement Agreement to take all actions, and do, or cause to be done, all things necessary to arrange the Loblaw Debt Financing on the terms and conditions described in the Loblaw Commitment Letter. If the Loblaw Debt Financing or any alternative financing is not obtained, Loblaw will continue to be obligated to consummate the Arrangement on the terms contemplated by the Arrangement Agreement and the failure to obtain the Loblaw Debt Financing or any alternative financing is not a condition to the obligations of Loblaw under the Arrangement Agreement, including its obligations to complete the Arrangement.

In addition to the Loblaw Debt Financing, on July 14, 2013, GWL and Loblaw entered into a subscription agreement for the Private Placement, pursuant to which GWL has agreed to subscribe for 10,515,247 additional Loblaw Shares concurrently with the completion of the Arrangement at a price of \$47.55 per share, which was the closing price of the Loblaw Shares on the TSX on July 12, 2013, the last trading day before announcement of the Arrangement, and the price at which Loblaw Shares are being issued to Shoppers Drug Mart Shareholders under the Arrangement. The aggregate proceeds of the Private Placement of approximately \$500 million will be used by Loblaw to finance a portion of the aggregate Cash Consideration payable to Shoppers Drug Mart Shareholders under the Arrangement.

COURT APPROVAL AND COMPLETION OF THE ARRANGEMENT

The Arrangement requires approval by the Court under section 192 of the CBCA. Prior to the mailing of this Circular, Shoppers Drug Mart obtained the Interim Order providing for the calling and holding of the Meeting and other procedural matters. A copy of the Interim Order is attached hereto as Appendix G. A copy of the notice of application applying for the Final Order is attached hereto as Appendix F.

Subject to the approval of the Arrangement Resolution by Shoppers Drug Mart Shareholders at the Meeting, the hearing in respect of the Final Order is scheduled to take place on September 16, 2013 at the Court at 330 University Avenue, Toronto Ontario M5G 1R7. At the hearing, the Court will consider, among other things, the fairness and reasonableness of the Arrangement and the rights of every person affected. The Court may approve the Arrangement in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court deems fit and subject to the terms of the Arrangement Agreement. Participation in the hearing on the Final Order, including who may participate and present evidence or argument and the procedure for doing so is subject to the terms of the Interim Order and any subsequent direction of the Court.

Any Shoppers Drug Mart Shareholder or other person who wishes to participate, to appear, to be represented, and to present evidence or arguments at the hearing, must serve and file a notice of appearance (a “**Notice of Appearance**”) and satisfy the other requirements of the Court, as directed in the Interim Order appended hereto as Appendix G and as the Court may direct in the future. In the event that the hearing is postponed, adjourned or rescheduled then, subject to further direction of the Court, only those persons having previously served a Notice of Appearance in compliance with the Interim Order will be given notice of the new date.

Assuming the Final Order is granted, the Competition Act Approval is obtained and the other conditions to closing contained in the Arrangement Agreement are satisfied or waived, then the Articles of Arrangement will be filed with the Director to give effect to the Arrangement.

LETTER OF TRANSMITTAL AND ELECTION FORM

A Letter of Transmittal and Election Form has been mailed, together with this Circular, to each person who was a registered holder of Shoppers Drug Mart Shares on the Record Date. Each registered Shoppers Drug Mart Shareholder must forward a properly completed and signed Letter of Transmittal and Election Form, with accompanying Shoppers Drug Mart Share certificate(s), in order to receive the consideration to which such Shoppers Drug Mart Shareholder is entitled under the Arrangement. It is recommended that Shoppers Drug Mart Shareholders complete, sign and return the Letter of Transmittal and Election Form with accompanying Shoppers Drug Mart Share certificate(s) to the Depositary as soon as possible. **To make a valid election as to the form of Consideration that you wish to receive under the Arrangement, you must sign and return, if applicable, the Letter of Transmittal and Election Form and make a proper election thereunder and return it with accompanying Shoppers Drug Mart Share certificate(s) to the Depositary prior to the Election Deadline, being 5:00 p.m. (Toronto time) on the business day which is two (2) business days preceding the Effective Date. Loblaw shall provide at least three (3) days’ notice of the Election Deadline to Shoppers Drug Mart Shareholders by means of a news release disseminated on newswire. See “The Arrangement — Elections, Pro-ration and Exchange Procedure”.**

Any use of the mail to transmit a certificate for Shoppers Drug Mart Shares and a related Letter of Transmittal and Election Form is at the risk of the Shoppers Drug Mart Shareholder. If these documents are mailed, it is recommended that registered mail, with return receipt requested, properly insured, be used.

Whether or not Shoppers Drug Mart Shareholders forward the certificate(s) representing their Shoppers Drug Mart Shares, upon completion of the Arrangement on the Effective Date, Shoppers Drug Mart Shareholders will cease to be Shoppers Drug Mart Shareholders as of the Effective Date and will only be entitled to receive the cash and/or that number of Loblaw Shares to which they are entitled under the Arrangement or, in the case of Shoppers Drug Mart Shareholders who properly exercise Dissent Rights, the right to receive fair value for their Shoppers Drug Mart Shares in accordance with the dissent procedures. See “Rights of Dissenting Shoppers Drug Mart Shareholders”.

The instructions for making elections, exchanging certificates representing Shoppers Drug Mart Shares and depositing such share certificates with the Depositary are set out in the Letter of Transmittal and Election Form. The Letter of Transmittal and Election Form provides instructions with regard to lost certificates. See “The Arrangement — Elections, Pro-Ration and Exchange Procedure”.

ELECTIONS, PRO-RATION AND EXCHANGE PROCEDURE

Available Elections and Procedure

Each registered holder of Shoppers Drug Mart Shares will have the right to elect in the Letter of Transmittal and Election Form to receive the form of Consideration set out below. **To make a valid election as to the form of Consideration that you wish to receive under the Arrangement, you must sign and return, if applicable, the Letter of Transmittal and Election Form and make a proper election thereunder and return it with accompanying Shoppers Drug Mart Share certificate(s) to the Depository prior to the Election Deadline, being 5:00 p.m. (Toronto time) on the business day which is two (2) business days preceding the Effective Date. Loblaw shall provide at least three (3) days' notice of the Election Deadline to Shoppers Drug Mart Shareholders by means of a news release disseminated on newswire.**

An election will have been properly made by registered holders of Shoppers Drug Mart Shares only if the Depository has received, by the Election Deadline, a Letter of Transmittal and Election Form properly completed and signed and accompanied by the certificate(s) for the Shoppers Drug Mart Shares to which the Letter of Transmittal and Election Form relates, properly endorsed or otherwise in proper form for transfer.

Shoppers Drug Mart Shareholders whose Shoppers Drug Mart Shares are registered in the name of a broker, investment dealer or other intermediary should contact that broker, investment dealer or other intermediary for instructions and assistance in delivery of the share certificate(s) representing those Shoppers Drug Mart Shares and making, if applicable, an election with respect to the form of Consideration they wish to receive.

The determination of the Depository as to whether elections have been properly made and when elections were received by it will be binding. **SHOPPERS DRUG MART SHAREHOLDERS WHO DO NOT MAKE AN ELECTION PRIOR TO THE ELECTION DEADLINE, OR FOR WHOM THE DEPOSITARY DETERMINES THAT THEIR ELECTION WAS NOT PROPERLY MADE WITH RESPECT TO ANY SHOPPERS DRUG MART SHARES, WILL BE DEEMED TO HAVE ELECTED TO RECEIVE THE CASH CONSIDERATION AS TO 53.9% OF SUCH HOLDER'S SHOPPERS DRUG MART SHARES AND THE SHARE CONSIDERATION AS TO 46.1% OF SUCH HOLDER'S SHOPPERS DRUG MART SHARES, SUCH DEEMED ELECTION TO BE SUBJECT TO PRO-RATION.** The Depository may, with the mutual agreement of Shoppers Drug Mart and Loblaw, make such rules as are consistent with the Arrangement for the implementation of the elections contemplated by the Arrangement and as are necessary or desirable to fully effect such elections.

Pro-ration

A Shoppers Drug Mart Shareholder may elect in accordance with the holder's Letter of Transmittal and Election Form (and a beneficial holder of Shoppers Drug Mart Shares may elect in accordance with instructions provided by their broker, investment dealer or other intermediary), for every Shoppers Drug Mart Share held, to receive either the (i) Cash Consideration or (ii) Share Consideration, provided that:

- the maximum number of Loblaw Shares that may, in the aggregate, be issued to the Shoppers Drug Mart Shareholders shall be equal to the product obtained by multiplying the number of Shoppers Drug Mart Shares issued and outstanding immediately prior to the Effective Time by 0.5965 (the "**Maximum Aggregate Share Consideration**"), which based on the fully diluted number of Shoppers Drug Mart Shares outstanding as of the date of the Arrangement Agreement would be approximately 119.9 million Loblaw Shares; and

- the maximum amount of cash that may, in aggregate, be paid to Shoppers Drug Mart Shareholders shall be equal to (a) the product obtained by multiplying the number of Shoppers Drug Mart Shares issued and outstanding immediately prior to the Effective Time by \$33.18, less (b) the product obtained by multiplying the number of Shoppers Drug Mart Shares held by Validly Dissenting Shoppers Drug Mart Shareholders by the Cash Consideration (the “**Maximum Aggregate Cash Consideration**”), which based on the fully diluted number of Shoppers Drug Mart Shares outstanding as of the date of the Arrangement Agreement would be approximately \$6.67 billion.

In the event that the aggregate amount of cash that would be paid to Shoppers Drug Mart Shareholders in accordance with the elections or deemed elections of such Shoppers Drug Mart Shareholders (the “**Total Elected Cash Consideration**”) exceeds the Maximum Aggregate Cash Consideration, then the aggregate amount of cash to be paid to any Shoppers Drug Mart Shareholder shall be determined by multiplying the aggregate amount of cash that would have been paid to such Shoppers Drug Mart Shareholder without pro-ration by a fraction, rounded to six decimal places, the numerator of which is the Maximum Aggregate Cash Consideration and the denominator of which is the Total Elected Cash Consideration; and such holder shall be deemed to have elected to receive Share Consideration for the remainder of their Shoppers Drug Mart Shares for which such holder would otherwise have received cash.

In the event that the aggregate number of Loblaw Shares that would be issued to Shoppers Drug Mart Shareholders in accordance with the elections or deemed elections of such Shoppers Drug Mart Shareholders (the “**Total Elected Share Consideration**”) exceeds the Maximum Aggregate Share Consideration, then the aggregate number of Loblaw Shares to be issued to any Shoppers Drug Mart Shareholder shall be determined by multiplying the aggregate number of Loblaw Shares that would have been issued to such Shoppers Drug Mart Shareholder without pro-ration by a fraction, rounded to six decimal places, the numerator of which is the Maximum Aggregate Share Consideration and the denominator of which is the Total Elected Share Consideration, rounded down to the closest whole number; and such holder shall be deemed to have elected to receive Cash Consideration for the remainder of their Shoppers Drug Mart Shares for which such holder would otherwise have received Loblaw Shares.

Cash Consideration will be denominated in Canadian dollars. However, a Shoppers Drug Mart Shareholder can instead elect to receive payment in U.S. dollars by checking the appropriate box in the Letter of Transmittal and Election Form, in which case such Shoppers Drug Mart Shareholder will have acknowledged and agreed that the exchange rate for one Canadian dollar expressed in U.S. dollars will be based on the exchange rate available to the Depository at its typical banking institution on the date the funds are converted. Shoppers Drug Mart Shareholders electing to have the payment for their Shoppers Drug Mart Shares paid in U.S. dollars will have further acknowledged and agreed that any change to the currency exchange rate of the U.S. dollar will be at the sole risk of the Shoppers Drug Mart Shareholder.

Exchange Procedure

On the Effective Date, Loblaw shall: (i) deposit or cause to be deposited with the Depository, for the benefit of the Shoppers Drug Mart Shareholders entitled to receive cash, the aggregate amount of cash that such Shoppers Drug Mart Shareholders are entitled to receive under the Arrangement; and (ii) deposit or cause to be deposited with the Depository, for the benefit of and to be held on behalf of the Shoppers Drug Mart Shareholders entitled to receive Loblaw Shares, certificates representing the Loblaw Shares that such Shoppers Drug Mart Shareholders are entitled to receive under the Arrangement (calculated without reference to whether any Shoppers Drug Mart Shareholder has exercised Dissent Rights), which certificates and cash shall be held by the Depository after the Effective Time as agent and nominee for Former Shoppers Drug Mart Shareholders for distribution to such Former Shoppers Drug Mart Shareholders.

Upon surrender to the Depositary for cancellation of a certificate which immediately prior to the Effective Time represented one or more outstanding Shoppers Drug Mart Shares, together with a duly completed and executed Letter of Transmittal and Election Form, and such additional documents and instruments as the Depositary may reasonably require, the holder of such surrendered certificate shall be entitled to receive in exchange therefor, and the Depositary shall deliver to such holder as soon as practicable following the Effective Time (in each case, less any accruals withheld pursuant to the terms of the Plan of Arrangement): (i) a certificate representing the number of Loblaw Shares to which such holder is entitled to receive under the Arrangement, as applicable; and (ii) a cheque for the cash consideration to which such holder is entitled to under the Arrangement, as applicable. Under no circumstances will interest accrue or be paid by Loblaw, Shoppers Drug Mart or the Depositary in respect of the Cash Consideration regardless of any delay in making such payment.

Tax Elections

An Eligible Holder who receives Loblaw Shares under the Arrangement shall be entitled to make an income tax election (the “**Joint Tax Elections**”) pursuant to subsection 85(1) of the ITA, or subsection 85(2) of the ITA if such beneficial owner is a partnership (and in each case, where applicable, the analogous provisions of provincial income tax law), with respect to the transfer of its Shoppers Drug Mart Shares to Loblaw and receipt of the Loblaw Shares by providing two signed copies of the necessary prescribed election form(s) to the Depositary within 90 days following the Effective Date, duly completed with the details of the number of Shoppers Drug Mart Shares transferred and the applicable agreed amounts for the purposes of such elections. Thereafter, subject to the election forms being correct and complete and complying with the provisions of the ITA (and applicable provincial income tax law), the forms will be signed by Loblaw and returned to such Eligible Holder within 90 days after the receipt thereof by the Depositary for filing with the Canada Revenue Agency (or the applicable provincial taxing authority) by such Eligible Holder. Loblaw will not be responsible for the proper completion of any election form and, except for Loblaw’s obligation to return (within 90 days after the receipt thereof by the Depositary) duly completed election forms which are received by the Depositary within 90 days of the Effective Date, Loblaw will not be responsible for any taxes, interest or penalties resulting from the failure by an Eligible Holder to properly complete or file the election forms in the form and manner and within the time prescribed by the ITA (or any applicable provincial legislation). In its sole discretion, Loblaw may choose to sign and return an election form received by the Depositary more than 90 days following the Effective Date, but Loblaw will have no obligation to do so.

No Fractional Shares and Rounding of Cash Consideration

In no event shall any fractional Loblaw Shares be issued under the Arrangement. If the aggregate number of Loblaw Shares to be issued to a Shoppers Drug Mart Shareholder as consideration under the Arrangement would result in a fraction of a Loblaw Share being issuable, then the number of Loblaw Shares to be issued to such Shoppers Drug Mart Shareholder shall be rounded down to the closest whole number and, in lieu of the issuance of a fractional Loblaw Share thereof, Loblaw will pay to each such holder a cash payment (rounded down to the nearest cent) determined by reference to the volume weighted average trading price of Loblaw Shares on the TSX for the five trading days on which such shares trade on the TSX immediately preceding the Effective Date.

If the aggregate cash amount which a Shoppers Drug Mart Shareholder is entitled to receive would otherwise include a fraction of \$0.01, then the aggregate cash amount to which such Shoppers Drug Mart Shareholder shall be entitled to receive shall be rounded up to the nearest whole \$0.01.

Lost Certificates

In the event any certificate which immediately prior to the Effective Time represented one or more outstanding Shoppers Drug Mart Shares shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen or destroyed, the Depositary will issue in exchange for such lost, stolen or destroyed certificate, the cash amount or the Loblaw Shares, or any combination thereof, that such Person is entitled to receive as Consideration (and any dividends or distributions with respect thereto) deliverable in accordance with such holder's Letter of Transmittal and Election Form. When authorizing the delivery of such consideration in exchange for any lost, stolen or destroyed certificate, the Person to whom the consideration is being delivered shall, as a condition precedent to the delivery of such consideration, give a bond satisfactory to Loblaw and the Depositary in such sum as Loblaw and the Depositary may direct or otherwise indemnify Loblaw and the Depositary in a manner satisfactory to Loblaw and the Depositary against any claim that may be made against Loblaw or the Depositary with respect to the certificate alleged to have been lost, stolen or destroyed.

Cancellation of Rights after Six Years

Any certificate which immediately prior to the Effective Time represented outstanding Shoppers Drug Mart Shares that is not deposited with all other instruments required on or prior to the sixth anniversary of the Effective Date, shall cease to represent a claim or interest of any kind or nature as a shareholder of Loblaw. On such date, the cash and Loblaw Shares (or cash in lieu of fractional interests therein) to which the former registered holder of the certificate referred to in the preceding sentence was ultimately entitled shall be deemed to have been surrendered to Loblaw, together with all entitlements to dividends, distributions and interest thereon held for such former registered holder.

Withholding Rights

Loblaw and the Depositary shall be entitled to deduct and withhold from any dividend or consideration otherwise payable to any holder of Shoppers Drug Mart Shares, Shoppers Drug Mart Share Awards and Shoppers Drug Mart Options, such amounts as Loblaw or the Depositary are required to deduct and withhold with respect to such payment under the ITA, the United States *Internal Revenue Code of 1986* or any provision of provincial, territorial, state, local or foreign tax law, in each case as amended. To the extent that amounts are so withheld, such withheld amounts shall be treated as having been paid to the holder of the Shoppers Drug Mart Shares, Shoppers Drug Mart Share Awards and Shoppers Drug Mart Options in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. To the extent that the amount so required or permitted to be deducted or withheld from any payment to a holder exceeds any cash component of the consideration otherwise payable to the holder, Loblaw and the Depositary are hereby authorized to sell or otherwise dispose of such portion of the consideration otherwise payable to the holder as is necessary to provide sufficient funds to Loblaw or the Depositary, as the case may be, to enable it to comply with such deduction or withholding requirement and Loblaw or the Depositary shall notify the holder thereof and remit the applicable portion of the net proceeds of such sale to the appropriate taxing authority, and shall remit to such holder any unapplied balance of the proceeds of such sale.

Non-Registered Shareholders

Shoppers Drug Mart Shareholders whose Shoppers Drug Mart Shares are registered in the name of a broker, investment dealer or other intermediary should contact that broker, investment dealer or other intermediary for instructions and assistance in delivery of the share certificate(s) representing those Shoppers Drug Mart Shares and making an election with respect to the form of Consideration they wish to receive.

TREATMENT OF SHOPPERS DRUG MART COMPENSATION PLANS

Options

Each Shoppers Drug Mart Option outstanding at the Effective Time (whether vested or unvested) will be exchanged for a Replacement Option. Each Replacement Option enables the holder to acquire such number of Loblaw Shares as is equal to the product of that number of Shoppers Drug Mart Shares that were issuable upon exercise of such Shoppers Drug Mart Option immediately prior to the Effective Time multiplied by the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares, at an exercise price per Loblaw Share equal to the greater of the quotient determined by dividing the exercise price per Shoppers Drug Mart Share at which such Shoppers Drug Mart Option was exercisable immediately prior to the Effective Time, by the Exchange Ratio, rounded up to the nearest whole cent, and such minimum amount that meets the requirements of paragraph 7(1.4)(c) of the ITA. All terms and conditions of a Replacement Option, including the term to expiry, vesting, conditions to and manner of exercise, shall be the same as the Shoppers Drug Mart Option for which it was exchanged and any certificate or option agreement previously evidencing the Shoppers Drug Mart Option shall thereafter evidence such Replacement Option.

Share Awards

Each Vested Shoppers Drug Mart RSU will be, without any act or formality on the part of the holder thereof, be disposed of and surrendered by the holder thereof, to Shoppers Drug Mart in exchange for a cash payment (net of any applicable withholdings) equal to (A) the number of Shoppers Drug Mart Shares subject to the Vested Shoppers Drug Mart RSU immediately prior to the Effective Time, multiplied by (B) the fair market value of a Shoppers Drug Mart Share immediately prior to the Effective Time determined in accordance with the terms of the Shoppers Drug Mart RSU Plans, as applicable.

Each Unvested Shoppers Drug Mart Share Award will be continued on the same terms and conditions as were applicable immediately prior to the Effective Time, except that, pursuant to the terms of the Shoppers Drug Mart RSU Plans, the Shoppers Drug Mart DSU Plan and the Shoppers Drug Mart CEO DSU Plan, as applicable, the terms of such Unvested Shoppers Drug Mart Share Award will be amended so as to substitute for the Shoppers Drug Mart Shares subject to such Unvested Shoppers Drug Mart Share Award such number of Loblaw Shares equal to (A) the number of Shoppers Drug Mart Shares subject to the Unvested Shoppers Drug Mart Share Award immediately prior to the Effective Time, multiplied by (B) the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares, and as otherwise set out below.

The Shoppers Drug Mart Share Plans and the Shoppers Drug Mart RSU Plans will be amended to accelerate the vesting of those awards that remain unvested in accordance with their terms immediately following the Effective Time so as to fully vest on the earlier of: (i) the 24 month anniversary of the completion of the Arrangement; and (ii) December 1, 2015.

STOCK EXCHANGE LISTING AND REPORTING ISSUER STATUS

If the Arrangement is completed, the Shoppers Drug Mart Shares will be delisted from the TSX. Shoppers Drug Mart currently has medium term notes outstanding and as a result is expected to remain a reporting issuer following the Arrangement.

The Loblaw Shares currently trade on the TSX under the symbol “L”. Loblaw has applied to list the Loblaw Shares issuable under the Arrangement on the TSX and it is a condition of closing that Loblaw shall have obtained approval for this listing.

INTERESTS OF CERTAIN PARTIES IN THE ARRANGEMENT

In considering the recommendation of the Shoppers Drug Mart Board with respect to the Arrangement, Shoppers Drug Mart Shareholders should be aware that certain members of the Shoppers Drug Mart Board and of Shoppers Drug Mart's management have interests in connection with the transactions contemplated by the Arrangement that may create actual or potential conflicts of interest in connection with such transactions as described below. The Shoppers Drug Mart Board is aware of these interests and considered them along with the other matters described above in "The Arrangement — Recommendation of the Shoppers Drug Mart Board" and "Information Relating to Shoppers Drug Mart — Information Respecting Directors and Officers".

Ownership of Options, RSUs and DSUs

The directors and executive officers of Shoppers Drug Mart hold Shoppers Drug Mart RSUs, Shoppers Drug Mart DSUs and Shoppers Drug Mart Options which will be affected by the Arrangement as described under the heading "The Arrangement — Treatment of Shoppers Drug Mart Compensation Plans".

Termination and Change of Control Benefits

Mr. Domenic Pilla, Mr. Bradley Lukow, Mr. Michael Motz, Ms. Mary-Alice Vuicic, Dr. Dorian Lo and 11 other members of senior management of Shoppers Drug Mart have change of control agreements with Shoppers Drug Mart that may result in payments being made to such individuals as a result of certain events. Pursuant to these agreements, in the event that, within a period of 12 months following the effective date of a change of control of Shoppers Drug Mart, an executive's employment is terminated by Shoppers Drug Mart without cause or by the executive for good reason, Shoppers Drug Mart will provide and pay to the executive benefits for a 24-month period, two times the executive's annual base salary at termination and two times the short-term incentive awarded (as averaged over the preceding three years). The Arrangement will constitute a change of control of Shoppers Drug Mart for the purposes of these agreements.

Loblaw Board of Directors

Pursuant to the terms of the Arrangement Agreement, the board of directors of Loblaw will be reconstituted upon the closing of the Arrangement to consist of fourteen directors, including four directors of Shoppers Drug Mart, including Mr. Domenic Pilla, with the remaining three to be identified and agreed upon by Shoppers Drug Mart and Loblaw, acting reasonably, prior to the Effective Date.

Insurance and Indemnification of Directors and Officers

Loblaw has agreed that it will maintain in effect without any reduction in scope or coverage for six years from the Effective Date customary policies of directors' and officers' liability insurance providing protection comparable to the most favourable protection provided by the policies maintained by Shoppers Drug Mart and its Subsidiaries as were in effect on the date of this Agreement and providing coverage on a "trailing" or "run-off" basis for all present and former directors and officers of Shoppers Drug Mart with respect to claims arising from facts or events which occurred prior to the Effective Date; provided that Loblaw will not be required, in order to maintain such directors' and officers' liability insurance policies, to pay annual premiums in excess of 250% of the annual cost of Shoppers Drug Mart's existing policies; and provided further that, if equivalent coverage cannot be obtained or can only be obtained by paying annual premiums in excess of 250% of Shoppers Drug Mart's current premiums, Loblaw shall only be required to obtain as much coverage as can be obtained by paying annual premiums equal to 250% of Shoppers Drug Mart's current premiums.

Pursuant to the Arrangement Agreement, Loblaw has agreed that all rights to indemnification or exculpation now existing in favour of present and former officers and directors of Shoppers Drug Mart shall survive the Arrangement and shall continue in full force and effect for a period of not less than six years from the Effective Date.

DEPOSITARY

Shoppers Drug Mart has retained the services of the Depositary for the receipt of the Letters of Transmittal and Election Forms and the certificates representing Shoppers Drug Mart Shares and for the delivery and payment of the Consideration payable for the Shoppers Drug Mart Shares under the Arrangement. The Depositary will receive reasonable and customary compensation for its services in connection with the Arrangement, will be reimbursed for certain reasonable out-of-pocket expenses and will be indemnified against certain liabilities, including liabilities under securities laws and expenses in connection therewith.

INFORMATION RELATING TO SHOPPERS DRUG MART

INFORMATION RESPECTING DIRECTORS AND OFFICERS

The names of the directors and officers of Shoppers Drug Mart, the positions held by them with Shoppers Drug Mart and the designation, percentage of class and number of outstanding securities of Shoppers Drug Mart beneficially owned, directly or indirectly, or over which control or direction is exercised by each of them and, where known after reasonable enquiry, by their respective associates (see “Information Relating to Shoppers Drug Mart — Information Respecting Directors and Officers”) are as follows:

Name	Position	Securities of Shoppers Drug Mart Beneficially Owned, Directly or Indirectly or over which Control or Direction is Exercised ⁽¹⁾			
		Shoppers Drug Mart Shares	Shoppers Drug Mart DSUs	Shoppers Drug Mart RSUs	Shoppers Drug Mart Options
Domenic Pilla	President and Chief Executive Officer	1,000	74,110.747	54,863.880	305,776
Paul Damiani	Executive Vice President, Operations	0	0	23,652.250	22,090
Dr. Dorian Lo	Executive Vice President, Pharmacy and Healthcare	0	0	20,622.630	33,482
Bradley Lukow	Executive Vice President and Chief Financial Officer	1,000	0	42,989.881	97,385
Michael Motz	Chief Merchandising Officer and Executive Vice President	1,818	0	57,194.729	82,378
Frank Pedinelli	Executive Vice President, Legal Affairs and General Counsel	2	0	22,257.948	18,750
Mary-Alice Vuicic	Chief Administrative Officer and Executive Vice President, Human Resources and Public Affairs	0	0	33,102.875	75,189
John Caplice	Senior Vice President, Treasurer and Investor Relations	1,000	0	17,040.629	0
Adam Grabowski	Vice President, Legal Affairs &	100	0	9,444.098	0

Securities of Shoppers Drug Mart Beneficially Owned, Directly or Indirectly or over which Control or Direction is Exercised⁽¹⁾

Name	Position	Shoppers Drug Mart Shares	Shoppers Drug Mart DSUs	Shoppers Drug Mart RSUs	Shoppers Drug Mart Options
	Secretary				
James Hankinson	Director	0	11,077.344	0	0
Krystyna Hoeg	Director	0	18,931.869	0	60,000
Holger Kluge	Director	5,000	26,194.114	0	60,000
Gaetan Lussier	Director	2,000	15,962.144	0	0
Dr. Martha Piper	Director	0	15,137.783	0	0
Beth Pritchard	Director	0	2,258.312	0	0
Sarah Raiss	Director	3,500	11,282.621	0	0
Derek Ridout	Director	2,000	13,669.778	0	60,000
Johanna Waterous	Director	0	3,642.218	0	0
David M. Williams	Director	1,500	28,955.283	0	60,000

Notes:

- (1) The information as to securities of Shoppers Drug Mart beneficially owned or over which control or direction is exercised, not being within the knowledge of Shoppers Drug Mart, has been furnished by the respective directors and officers.

TRADING PRICE AND VOLUME OF SHOPPERS DRUG MART SHARES

The Shoppers Drug Mart Shares are listed for trading on the TSX under the trading symbol “SC”. The following table sets forth, for the calendar periods indicated, the intraday high and low sale prices and composite volume of trading of the Shoppers Drug Mart Shares as reported on the TSX.

	TSX		
	Price Range (\$)		
	High	Low	Volume
August 2012	43.41	41.00	12,640,655
September 2012	43.27	40.51	12,158,849
October 2012	41.93	40.03	10,800,124
November 2012	42.85	40.97	12,055,856
December 2012	43.08	41.45	9,546,352
January 2013	44.27	40.90	20,208,850
February 2013	43.08	41.11	15,601,768
March 2013	43.51	42.01	10,071,924
April 2013	45.58	42.66	15,622,841
May 2013	47.49	44.96	13,106,580
June 2013	49.00	43.91	14,897,174
July 2013	61.77	47.07	40,614,286
August 1, 2013 to August 12, 2013	61.29	59.71	6,322,215

PRIOR SALES

The following tables summarize the issuances of Shoppers Drug Mart Shares, Shoppers Drug Mart Options granted by Shoppers Drug Mart and Shoppers Drug Mart Shares issued on the exercise of Shoppers Drug Mart Options within the 12 months prior to the date of this Circular.

Shoppers Drug Mart Options Granted Within the Last 12 Months

<u>Date of Grant</u>	<u>Number of Shoppers Drug Mart Options Granted</u>	<u>Exercise Price Per Shoppers Drug Mart Share (\$)</u>
February 19, 2013	286,682	41.95

Shoppers Drug Mart Shares Issued on the Exercise of Shoppers Drug Mart Options Within the Last 12 Months

<u>Date of Shoppers Drug Mart Option Exercise</u>	<u>Number of Shoppers Drug Mart Options Exercised</u>	<u>Exercise Price Per Shoppers Drug Mart Share (\$)</u>
January 7, 2013	3,108	40.81
January 16, 2013	5,794	40.81
February 4, 2013	10,506	31.40
April 1, 2013	920	25.86
April 8, 2013	23,000	41.80
April 18, 2013	23,000	41.80
June 5, 2013	1,818	25.86
July 31, 2013	60,000	44.02

AVAILABLE INFORMATION

Shoppers Drug Mart files reports and other information with applicable securities regulatory authorities in each of the provinces and territories of Canada. These reports and information are available to the public free of charge on SEDAR at www.sedar.com.

RISK FACTORS

Whether or not the Arrangement is completed, Shoppers Drug Mart will continue to face many of the risks that it currently faces with respect to its business and affairs. Certain of these risk factors have been disclosed, starting on page 54, in the management's discussion and analysis of the activities, results of operations, and the financial condition of Shoppers Drug Mart for the 52-week period ended December 29, 2012 and starting on page 20, in the annual information form of Shoppers Drug Mart dated March 20, 2013, both of which are incorporated by reference into this Circular and have been filed on SEDAR at www.sedar.com. Upon request, a Shoppers Drug Mart Shareholder will be provided with a copy of such documents free of charge.

SHOPPERS DRUG MART DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed by Shoppers Drug Mart with the applicable securities regulatory authorities in each of the provinces and jurisdictions of Canada, are specifically incorporated by reference

into, and form an integral part of, this Circular on the basis set forth under “Information Relating to Shoppers Drug Mart”:

- (a) annual information form of Shoppers Drug Mart dated March 20, 2013 for the fiscal year ended December 29, 2012;
- (b) consolidated annual financial statements of Shoppers Drug Mart for the 52-week periods ended December 29, 2012 and December 31, 2011, together with the notes thereto and the independent auditor’s report thereon;
- (c) management’s discussion and analysis of the financial condition and results of operations for Shoppers Drug Mart for the 52-week period ended December 29, 2012;
- (d) unaudited interim condensed consolidated financial statements of the financial condition and results of operations for Shoppers Drug Mart as at June 15, 2013 and for the 12 and 24 week periods ended June 15, 2013;
- (e) management’s discussion and analysis of Shoppers Drug Mart as at June 15, 2013 and for the 12 and 24 week periods ended June 15, 2013;
- (f) management proxy circular of Shoppers Drug Mart attached to the Notice of Annual Meeting dated March 20, 2013 prepared in connection with Shoppers Drug Mart’s annual meeting of shareholders held on May 9, 2013;
- (g) the material change report of Shoppers Drug Mart dated July 17, 2013, relating to the Arrangement; and
- (h) the material change report of Shoppers Drug Mart dated February 7, 2013, relating to the increase of quarterly cash dividend on the Shoppers Drug Mart Shares from \$0.265 to \$0.285.

All material change reports (other than confidential reports), audited annual financial statements and management’s discussion and analysis and all other documents of the type referred to in section 11.1 of Form 44-101F1 – Short Form Prospectus filed by Shoppers Drug Mart with the applicable securities regulatory authorities in each of the provinces and territories of Canada on SEDAR at www.sedar.com after the date of this Circular and before the Meeting are deemed to be incorporated by reference into this Circular.

Any statement contained in this Circular or in any other document incorporated by reference in this Circular shall be deemed to be modified or superseded to the extent that a statement contained herein or in any other subsequently filed document which also is deemed to be incorporated by reference in this Circular modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document which it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this Circular except as so modified or superseded.

INFORMATION RELATING TO LOBLAW

OVERVIEW

Loblaw was incorporated on January 18, 1956, although portions of its business originated before 1900. Loblaw was continued under the CBCA by certificate of continuance dated May 7, 1980. The registered office of Loblaw is located at 22 St. Clair Avenue East, Toronto, Ontario M4T 2S7. The National Head Office and Store Support Centre of Loblaw is located at 1 President's Choice Circle, Brampton, Ontario L6Y 5S5.

Loblaw is Canada's largest food retailer and a leading provider of drugstore, general merchandise and financial products and services. Loblaw's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices. For over 50 years, Loblaw has supplied the Canadian market with innovative products and services through corporate, franchised and affiliated stores. Loblaw operates conventional and discount stores. Corporate owned store banners include *Atlantic Superstore*, *Dominion*¹ (in Newfoundland and Labrador), *Extra Foods*, *Loblaws*, *Loblaw Great Food*, *Maxi*, *Maxi & Cie*, *Provigo*, *The Real Canadian Superstore*, *T&T Supermarket* and *Zehrs*, and wholesale outlets operating as *Cash & Carry*, *Presto* and *The Real Canadian Wholesale Club*. Loblaw's franchised and affiliated stores operate under the trade names including *Atlantic SaveEasy*, *Fortinos*, *Extra Foods*, *nofrills*, *Super Valu*, *Valu-mart*, *Provigo* and *Your Independent Grocer*. As at August 12, 2013, the store network is supported by 23 warehouse facilities located across Canada, as well as third party warehouses and temporary storage facilities when required.

Loblaw offers a strong and innovative control label program for both food and everyday household needs. This program helps to create customer loyalty and ensure price competitiveness. Loblaw continually adds products to its control label program in the food, health and beauty and apparel categories driving differentiation through innovation.

In addition, Loblaw makes available to consumers *President's Choice Financial* services and products, including the *President's Choice Financial* MasterCard®, a guaranteed investment certificate product offered exclusively through the broker channel, personal banking services, which are provided by the direct banking division of a major Canadian chartered bank and the *PC* points loyalty program. Loblaw also offers home, auto, travel and pet insurance through its insurance entities and offers mobile phone services, including *The Mobile Shop* and *PC Mobile*.

As of August 12, 2013, Loblaw held an approximate 81.7% effective interest in Choice Properties, a publicly-traded REIT that owns, manages and develops real estate located across Canada. Choice Properties' portfolio spans approximately 35.3 million square feet of gross leasable area and consists of 425 properties primarily focused on supermarket-anchored shopping centres, stand-alone supermarkets and other retail properties. Loblaw is Choice Properties' principal tenant, largest unitholder and lender.

For further information regarding Loblaw, its other subsidiaries and their respective business activities, including Loblaw's inter-corporate relationships and organizational structure, see the annual information form for Loblaw dated February 21, 2013 in respect of Loblaw's financial year ended December 29, 2012, incorporated by reference in this Circular.

¹ Trademark used under license

DESCRIPTION OF LOBLAW SHARES

Loblaw is authorized to issue an unlimited number of Loblaw Shares. As at August 12, 2013 there were 282,009,897 Loblaw Shares issued and outstanding.

Loblaw expects to issue approximately 119.9 million Loblaw Shares to Shoppers Drug Mart Shareholders under the Arrangement, based on the fully diluted number of Shoppers Drug Mart Shares outstanding as of the date of the Arrangement Agreement, and approximately 10.5 million Loblaw Shares to GWL under the Private Placement.

The holders of Loblaw Shares are entitled to receive notice of all meetings of shareholders and to attend and vote the shares at the meetings. Loblaw Shares have voting rights of one vote per Loblaw Share. The holders of Loblaw Shares are entitled, subject to the rights, privileges, restrictions and conditions attached to any other class of shares of Loblaw, to receive any dividend declared by Loblaw and to receive the remaining property of Loblaw upon dissolution.

The closing price of the Loblaw Shares on the TSX on August 12, 2013 was \$47.12.

Principal Holder of Loblaw Shares

As of August 12, 2013, GWL has voting ownership of approximately 63% of the Loblaw Shares. GWL is controlled by Mr. W. Galen Weston. To the knowledge of Loblaw, no other person beneficially owns, directly or indirectly, or exercises control or direction over, 10% or more of the outstanding Loblaw Shares.

TRADING PRICE AND VOLUME OF LOBLAW SHARES

The Loblaw Shares are listed for trading on the TSX under the trading symbol “L”. The following table sets forth, for the calendar periods indicated, the intraday high and low sale prices and composite volume of trading of the Loblaw Shares as reported on the TSX.

	<u>TSX</u>		
	<u>Price Range (\$)</u>		<u>Volume</u>
	<u>High</u>	<u>Low</u>	
August 2012	35.36	32.40	12,399,151
September 2012	35.29	33.19	9,120,938
October 2012	34.85	33.52	4,778,561
November 2012	34.96	32.77	7,449,481
December 2012	42.09	33.20	25,281,960
January 2013	42.19	39.71	7,455,172
February 2013	41.50	39.10	6,132,103
March 2013	42.85	40.23	8,346,765
April 2013	43.30	40.76	16,103,353
May 2013	50.45	43.65	21,645,839
June 2013	50.81	46.03	13,818,040
July 2013	52.06	46.10	34,478,523
August 1, 2013 to August 12, 2013	49.19	46.69	5,702,763

PRIOR SALES

The following tables summarize the issuances of Loblaw Shares, Loblaw Options granted by Loblaw and Loblaw Shares issued on the exercise of Loblaw Options within the 12 months prior to the date of this Circular.

Loblaw Shares Issued Within the Last 12 Months (Other Than Those Issued on Exercise of Loblaw Options)

<u>Date of Sale</u>	<u>Price per Loblaw Share (\$)</u>	<u>Number of Securities</u>	<u>Reasons for issuance</u>
-	-	Nil	-

Loblaw Options Granted Within the Last 12 Months

<u>Date of Grant</u>	<u>Number of Loblaw Options Granted</u>	<u>Exercise Price Per Share (\$)</u>
21-Nov-2012	28,988	33.56
28-Feb-2013	1,470,267	40.56
08-May-2013	9,867	46.54
31-Jul-2013	2,683	49.72

Loblaw Shares Issued on the Exercise of Loblaw Options Within the Last 12 Months

<u>Date of Loblaw Option Exercise</u>	<u>Number of Loblaw Options Exercised</u>	<u>Exercise Price Per Share (\$)</u>
August 12, 2012 to August 12, 2013	2,420,155	34.35 ⁽¹⁾

(1) Based on weighted average exercise price of the Loblaw Options which were exercised during the period.

AVAILABLE INFORMATION

Loblaw files reports and other information with applicable securities regulatory authorities in each of the provinces and territories of Canada. These reports and information are available to the public free of charge on SEDAR at www.sedar.com.

RISK FACTORS

Whether or not the Arrangement is completed, Loblaw will continue to face many of the risks that it currently faces with respect to its business and affairs. Certain of these risk factors have been disclosed, starting on page 23, in the management's discussion and analysis of financial results of Loblaw as at and for the 52-week year ended December 29, 2012, which is incorporated by reference into this Circular and has been filed on SEDAR at www.sedar.com.

LOBLAW DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed by Loblaw with the applicable securities regulatory authorities in each of the provinces and territories of Canada, are specifically incorporated by reference into, and form an integral part of, this Circular on the basis set forth under "Information Relating to Loblaw":

- (a) the annual information form of Loblaw dated February 21, 2013 for the fiscal year ended December 29, 2012;

- (b) the audited consolidated financial statements of Loblaw and the notes thereto as at and for the 52-week periods ended December 29, 2012 and December 31, 2011, together with the report of the independent auditor thereon;
- (c) management's discussion and analysis of financial results of Loblaw as at and for the 52-week year ended December 29, 2012;
- (d) the unaudited interim period condensed consolidated financial statements of Loblaw as at and for the 12 and 24-week periods ended June 15, 2013;
- (e) management's discussion and analysis of financial results of Loblaw as at and for the 12 and 24 week periods ended June 15, 2013;
- (f) the management proxy circular of Loblaw dated March 18, 2013; and
- (g) the material change report of Loblaw dated July 17, 2013 with respect to the Arrangement.

All material change reports (other than confidential reports), audited annual financial statements and management's discussion and analysis and all other documents of the type referred to in section 11.1 of Form 44-101F1 – *Short Form Prospectus* filed by Loblaw with the applicable securities regulatory authorities in each of the provinces and territories of Canada on SEDAR at www.sedar.com after the date of this Circular and before the Meeting are deemed to be incorporated by reference into this Circular.

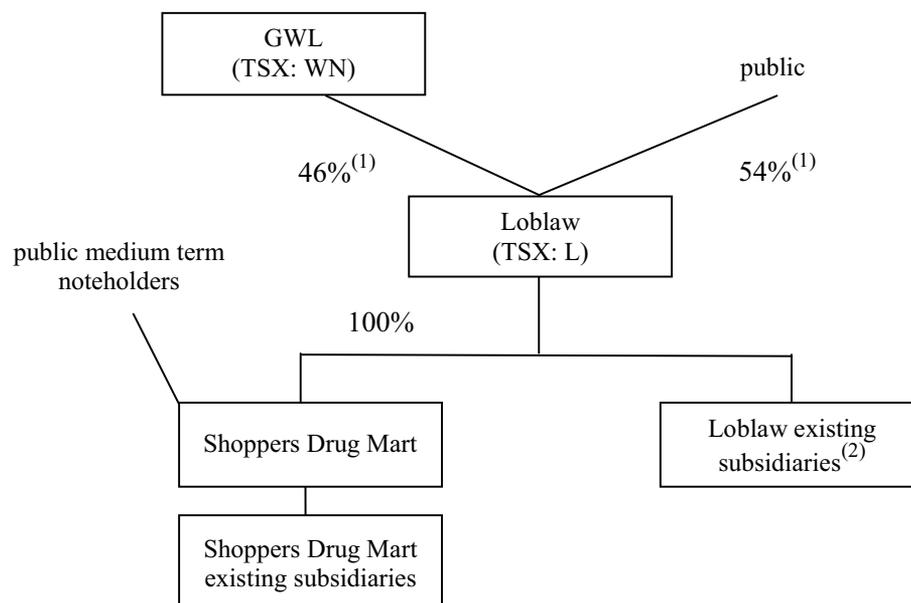
Any statement contained in this Circular or in any other document incorporated by reference in this Circular shall be deemed to be modified or superseded to the extent that a statement contained herein or in any other subsequently filed document which also is deemed to be incorporated by reference in this Circular modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document which it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this Circular except as so modified or superseded.

INFORMATION RELATING TO THE COMBINED COMPANY

ANTICIPATED CORPORATE STRUCTURE

Upon completion of the Arrangement, Loblaw as the Combined Company will continue to be a corporation governed by the CBCA. At the Effective Time, Loblaw will acquire all of the Shoppers Drug Mart Shares and Shoppers Drug Mart will become a wholly-owned subsidiary of Loblaw. Shoppers Drug Mart currently has medium term notes outstanding and as a result is expected to remain a reporting issuer following the Arrangement.

The following chart shows the corporate relationship between Loblaw and Shoppers Drug Mart following completion of the Arrangement:



(1) Approximate ownership.

(2) Includes Loblaw's approximate 81.7% effective interest in Choice Properties (TSX: CHP.UN), as of August 12, 2013.

DESCRIPTION OF THE BUSINESS OF THE COMBINED COMPANY

The following section of the Circular contains significant amounts of forward-looking information. Readers are cautioned that actual results may vary. See "Forward-Looking Statements".

Shoppers Drug Mart and Loblaw believe that the combination of the two companies will transform the Canadian retail landscape by delivering more choice, service, value and convenience to consumers. The parties believe that the combination will create immediate and significant value for Shoppers Drug Mart Shareholders, as well as the opportunity for shareholders of both companies to participate in the long-term growth of the Combined Company.

This transaction advances both companies' growth strategies and positions them well in an increasingly competitive environment. Benefits resulting from the transaction include greater scale, synergies and enhanced long-term growth potential. The Combined Company will be positioned to capitalize on important consumer trends, including the emphasis on health, wellness and nutrition and the imperatives of value and convenience. The combination of the two companies will significantly enhance the customer experience by offering greater assortment, service, value and convenience while preserving the unique shopping experiences that make both companies leaders. Together, Loblaw and Shoppers Drug Mart will be able to deliver the drugstore and food products and services that Canadians trust through an unparalleled network of stores across Canada.

The Combined Company plans to leverage increased revenue diversification and scale, financial strength and capital deployment to maximize returns to shareholders over the long term. By focusing on both growth and profitability, management of Loblaw and Shoppers Drug Mart believe that the Combined Company will be able to increase returns to shareholders while at the same time efficiently allocating capital for reinvestment in the business.

Increased Scale

If the companies had been combined in 2012, on a pro forma basis they would have undertaken over one billion customer transactions in 2,348 retail stores, generating over \$42 billion in revenue, over \$3 billion in EBITDA and free cash flow of approximately \$1 billion. This financial scale and flexibility will place the Combined Company in a position of strength as it faces growing competition in the Canadian marketplace.

Significant Benefits from Synergies

Loblaw and Shoppers Drug Mart expect that the Combined Company will deliver significant savings through increased scale and operating efficiencies. Management of Loblaw and Shoppers Drug Mart expect the combination to yield annual synergies of \$300 million in the third full year following closing (net of related costs), phased in evenly over the three years. The synergies will be achieved in three main areas:

- Cost of Goods Sold (45% during year three) – management expects to achieve a reduction in cost of goods sold through efficiencies in purchasing and private label penetration;
- Expense Reductions (40% during year three) – general and administrative savings will result from purchasing efficiencies in areas such as marketing and goods not for resale and from shared back office and infrastructure functions such as IT and supply chain; and
- Loyalty and Financial Services (15% during year three) – by leveraging shared insights, data and promotions across the Shoppers Drug Mart and Loblaw loyalty programs, management expects to increase revenue for the Combined Company. Further, management also expects to increase the penetration of PC Financial products by leveraging Shoppers Drug Mart’s customer base and store network.

Complementary Assets

The Combined Company will benefit from the complementary real estate assets held by Loblaw and Shoppers Drug Mart. Loblaw has Canada’s largest retail grocery footprint, including approximately 500 pharmacies, and Shoppers Drug Mart has the largest store network in Canada, including prime urban locations. Operating in various grocery and drugstore formats, the Combined Company will be uniquely positioned to provide its customers with the right shopping experience in the right locations at the right time.

The Combined Company will be able to deliver long-term growth by focusing on customers’ changing needs. With a common vision for serving Canadians’ growing interest in health and wellness and desire for convenience, the Combined Company will hold a unique position in the marketplace.

The Combined Company will also benefit from complementary assets in financial services, insurance, telecom, and apparel, as well as an approximate 81.7% effective interest in one of Canada’s largest real estate investment trusts, Choice Properties. The Combined Company intends to leverage shared loyalty program insights, data, and promotional opportunities to further enhance sales and profitability.

Enhanced Assortment and Distribution

This transaction will bring Canada’s #1 drugstore retailer together with the country’s #1 food retailer. The result will be the nation’s first truly comprehensive health and wellness retail company, serving consumers’ evolving needs with a combination of food and pharmacy expertise.

Loblaw will bring unique food capabilities to Shoppers Drug Mart's exceptional store network, increasing store traffic and front of store productivity, thereby creating a small store convenience food offering that is unique in Canada while preserving Shoppers Drug Mart's core customer proposition. At the same time, Shoppers Drug Mart will enhance Loblaw's approximate 500 pharmacies, as well as its national health and beauty business, with leading expertise in pharmacy service and distribution and proven best practices in drugstore merchandising.

Unrivalled Private Label Brands

Together, Loblaw and Shoppers Drug Mart will have the #1 food, health and beauty private label brands in Canada and the Joe Fresh apparel brand. By leveraging the strength of these brands across 2,348 stores, the Combined Company will bring thousands of trusted products within even closer reach of Canadian consumers. This improved distribution, along with better mix and assortment, is expected to increase sales while further solidifying customer loyalty.

Experienced Leadership

The leadership team of the Combined Company will draw from both organizations, tapping into extensive strategic, operational and financial experience in the retail sector. The board of directors of the Combined Company will consist of four directors from Shoppers Drug Mart, including Mr. Domenic Pilla, and ten directors from Loblaw. Loblaw intends to operate Shoppers Drug Mart as a distinct division, retaining its name, Associate-owner structure, and unique, compelling shopping experience. Mr. Pilla will continue as President of Shoppers Drug Mart, bringing both stability and years of retail and pharmacy experience to the Combined Company.

Strong Financial Position

The Combined Company will have a strong balance sheet and solid credit metrics. Following the announcement of the proposed combination on July 15, 2013, Standard & Poor's affirmed Loblaw's BBB credit rating (stable). The Combined Company's significant cash flow will allow for rapid debt repayment and will ensure that the Combined Company will have ample liquidity and flexibility to support ongoing growth prospects, acquisitions and investments. Loblaw has informed Shoppers Drug Mart that it intends to maintain Loblaw's current quarterly common share dividend of \$0.24 per share and its current policy of reviewing the dividend annually.

Increased Market Liquidity

Upon the completion of the Arrangement, the Combined Company will have a meaningfully enhanced position in the S&P/TSX Composite Index relative to either Shoppers Drug Mart or Loblaw's position today. The Combined Company will also have a broader shareholder base with increased market liquidity and a larger public float. On a pro forma basis as of July 12, 2013, the Combined Company had a market capitalization of approximately \$20 billion and a public float of approximately \$11 billion, by far the largest of any retail or consumer stock traded on the TSX.

SHARES TO BE ISSUED UNDER THE ARRANGEMENT

Loblaw expects to issue approximately 119.9 million Loblaw Shares to Shoppers Drug Mart Shareholders under the Arrangement, based on the fully diluted number of Shoppers Drug Mart Shares outstanding as of the date of the Arrangement Agreement, and approximately 10.5 million Loblaw Shares to GWL under the Private Placement.

PRINCIPAL HOLDER OF LOBLAW SHARES

Upon completion of the Arrangement and the Private Placement, GWL will have voting ownership of approximately 46% of the Loblaw Shares. GWL is controlled by Mr. W. Galen Weston. To the knowledge of Loblaw or Shoppers Drug Mart, no other person will beneficially own, directly or indirectly, or exercise control or direction over, 10% or more of the outstanding Loblaw Shares upon completion of the Arrangement.

THE ARRANGEMENT AGREEMENT

The Arrangement will be carried out pursuant to the Arrangement Agreement and the Plan of Arrangement. The following is a summary of the principal terms of the Arrangement Agreement and Plan of Arrangement. This summary does not purport to be complete and is qualified in its entirety by reference to the Arrangement Agreement, which is appended hereto as Appendix D and which has been filed by Shoppers Drug Mart on SEDAR at www.sedar.com, and to the Plan of Arrangement, which is appended hereto as Appendix E.

On July 14, 2013, Shoppers Drug Mart and Loblaw entered into the Arrangement Agreement, pursuant to which Shoppers Drug Mart and Loblaw agreed that, subject to the terms and conditions set forth in the Arrangement Agreement, Loblaw will acquire all of the issued and outstanding Shoppers Drug Mart Shares. Upon completion of the Arrangement, each Shoppers Drug Mart Shareholder (other than Validly Dissenting Shoppers Drug Mart Shareholders) will receive, at the election of each holder, \$61.54 in cash or 1.29417 Loblaw Shares plus \$0.01 in cash for each Shoppers Drug Mart Share held, subject to pro-rata as set out in the Plan of Arrangement. The terms of the Arrangement Agreement are the result of arm's length negotiation between Shoppers Drug Mart and Loblaw and their respective advisors.

REPRESENTATIONS AND WARRANTIES

The Arrangement Agreement contains representations and warranties made by Shoppers Drug Mart to Loblaw and representations and warranties made by Loblaw to Shoppers Drug Mart. Those representations and warranties were made solely for the purposes of the Arrangement Agreement and are subject to important qualifications and limitations agreed to by the parties in connection with negotiating its terms. Moreover, some of the representations and warranties contained in the Arrangement Agreement are subject to a contractual standard of materiality (including a Material Adverse Effect) that is different from that generally applicable to the public disclosure to Shoppers Drug Mart Shareholders, or may have been used for the purpose of allocating risk between parties to an agreement. For the foregoing reasons, you should not rely on the representations and warranties contained in the Arrangement Agreement as statements of factual information at the time they were made or otherwise.

The representations and warranties provided by Shoppers Drug Mart in favour of Loblaw relate to, among other things: (a) the due incorporation, existence, and power and authority of Shoppers Drug Mart to own its assets and conduct its business; (b) the corporate power and authority of Shoppers Drug Mart to enter into the Arrangement Agreement and perform its obligations thereunder; (c) Shoppers Drug Mart's ownership of its Subsidiaries; (d) the execution and delivery of the Arrangement Agreement, and the performance by it of its obligations thereunder not resulting in a violation, conflict or default under Shoppers Drug Mart's constating documents; (e) litigation; (f) tax related matters; (g) reporting issuer status and compliance with all requirements of the TSX; (h) the capitalization of Shoppers Drug Mart; (i) the absence of any orders cease trading the Shoppers Drug Mart Shares; (j) Shoppers Drug Mart's compliance with filing requirements; (k) Shoppers Drug Mart's financial statements, forms, reports, prospectuses or other documents required to be filed; (l) the absence of undisclosed liabilities; (m) the

absence of a Material Adverse Effect; (n) conduct of the business of Shoppers Drug Mart; (o) the absence of any defaults under all leases and agreements or instruments pertaining to the assets of Shoppers Drug Mart; (p) compliance with licenses and other authorizations necessary to conduct the business; (q) Shoppers Drug Mart's insurance policies; (r) compliance with laws; (s) possession of intellectual property; (t) no waiver of any confidentiality or standstill agreements; and (u) statements of material fact made or provided to Loblaw.

The representations and warranties provided by Loblaw in favour of Shoppers Drug Mart relate to, among other things: (a) the due incorporation, existence, and power and authority of Loblaw to own its assets and conduct its business; (b) the corporate power and authority of Loblaw to enter into the Arrangement Agreement and perform its obligations thereunder; (c) Loblaw's ownership of its Subsidiaries; (d) the execution and delivery of the Arrangement Agreement, and the performance by it of its obligations thereunder not resulting in a violation, conflict or default under Loblaw's constating documents; (e) litigation; (f) tax related matters; (g) reporting issuer status and compliance with all requirements of the TSX; (h) the capitalization of Loblaw; (i) the absence of any orders cease trading the Loblaw Shares; (j) Loblaw's compliance with filing requirements; (k) Loblaw's financial statements, forms, reports, prospectuses or other documents required to be filed; (l) the absence of undisclosed liabilities; (m) the absence of a Material Adverse Effect; (n) the absence of any defaults under all leases and agreements or instruments pertaining to the assets of Loblaw; (o) compliance with licenses and other authorizations necessary to conduct the business; (p) Loblaw's insurance policies; (q) compliance with laws; (r) possession of intellectual property; (s) statements of material fact made or provided to Shoppers Drug Mart; and (t) the Loblaw Commitment Letter.

CONDITIONS PRECEDENT TO THE ARRANGEMENT

Mutual Conditions

The obligations of Shoppers Drug Mart and Loblaw to complete the Arrangement are subject to the fulfilment of each of the following conditions precedent on or before the Effective Time, each of which may only be waived in whole or in part with the mutual consent of Shoppers Drug Mart and Loblaw:

- the Interim Order shall have been granted on terms consistent with the Arrangement Agreement and the Interim Order shall not have been set aside or modified in a manner unacceptable to either Shoppers Drug Mart or Loblaw, acting reasonably, on appeal or otherwise;
- the Loblaw Shareholder Approval shall have been obtained;
- the Shoppers Drug Mart Arrangement Resolution shall have been passed by the Shoppers Drug Mart Shareholders in accordance with the Interim Order;
- the Final Order shall have been granted on terms consistent with the Arrangement Agreement and the Final Order shall not have been set aside or modified in a manner unacceptable to either of Shoppers Drug Mart or Loblaw, acting reasonably, on appeal or otherwise;
- the Articles of Arrangement to be filed with the Director in accordance with the Arrangement Agreement shall be in form and substance acceptable to each of the Shoppers Drug Mart and Loblaw, acting reasonably;
- Competition Act Approval shall have been obtained;
- in addition to Competition Act Approval, all other domestic and foreign regulatory (including any Laws that regulate competition, antitrust, foreign investment, food and drugs or pharmacy),

governmental and third party approvals and consents required to be obtained, or that Shoppers Drug Mart and Loblaw mutually agree in writing to obtain, in respect of the completion of the Arrangement shall have been obtained on terms and conditions acceptable to Shoppers Drug Mart and Loblaw, each acting reasonably, and all applicable domestic and foreign statutory and regulatory waiting periods shall have expired or have been terminated and no unresolved material objection or opposition shall have been filed, initiated or made during any applicable statutory or regulatory period, except, in each case where the failure or failures to obtain such approvals or consents, or for the applicable waiting periods to have expired or terminated, would not be reasonably expected to have a Material Adverse Effect in respect of either of Loblaw or Shoppers Drug Mart or upon the completion of the Arrangement;

- the Loblaw Shares issuable pursuant to the Arrangement and upon the exercise of the Replacement Options shall, subject to customary conditions, have been approved for listing on the TSX; and
- no act, action, suit, proceeding, objection or opposition shall have been taken, entered or promulgated before or by any Governmental Entity (other than in relation to Competition Act Approval) or by any elected or appointed public official or private person in Canada or elsewhere and no Law, regulation, policy, judgment, decision, order, ruling or directive shall have been proposed, enacted, promulgated, amended or applied, which would be reasonably expected to result in a Material Adverse Effect in respect of Loblaw or Shoppers Drug Mart.

Additional Conditions in Favour of Shoppers Drug Mart

The obligation of Shoppers Drug Mart to complete the Arrangement is subject to the fulfillment of each of the following additional conditions precedent on or before the Effective Time (each of which is for the exclusive benefit of Shoppers Drug Mart and may be waived by Shoppers Drug Mart in whole or in part at any time):

- the representations and warranties made by Loblaw in the Arrangement Agreement shall be true and correct as of the Effective Date as if made on and as of the Effective Date (except to the extent such representations and warranties speak as of an earlier date or except as affected by transactions contemplated or permitted by the Arrangement Agreement), except where the failure of such representations and warranties to be true and correct (read as though such representations and warranties omit exceptions for failures that do not have or result in Material Adverse Effect), individually or in the aggregate, would not result or would not reasonably be expected to result in a Material Adverse Effect and Loblaw shall have provided to Shoppers Drug Mart a certificate of two senior officers of Loblaw certifying the foregoing on the Effective Date;
- Loblaw shall have complied in all material respects with its covenants in the Arrangement Agreement and Loblaw shall have provided to Shoppers Drug Mart a certificate of two senior officers of Loblaw certifying compliance with such covenants on the Effective Date; and
- no Material Adverse Effect in respect of Loblaw shall have occurred after the date of the Arrangement Agreement and prior to the Effective Date.

Additional Conditions in Favour of Loblaw

The obligation of Loblaw to complete the Arrangement is subject to the fulfillment of each of the following additional conditions precedent on or before the Effective Time (each of which is for the exclusive benefit of Loblaw and may be waived by Loblaw in whole or in part at any time):

- the representations and warranties made by Shoppers Drug Mart in the Arrangement Agreement shall be true and correct as of the Effective Date as if made on and as of the Effective Date (except to the extent such representations and warranties speak as of an earlier date or except as affected by transactions contemplated or permitted by the Arrangement Agreement), except where the failure of such representations and warranties to be true and correct (read as though such representations and warranties omit exceptions for failures that do not have or result in Material Adverse Effect), individually or in the aggregate, would not result or would not reasonably be expected to result in a Material Adverse Effect and Shoppers Drug Mart shall have provided to Loblaw a certificate of two senior officers of Shoppers Drug Mart certifying the foregoing on the Effective Date;
- Shoppers Drug Mart shall have complied in all material respects with its covenants in the Arrangement Agreement and Shoppers Drug Mart shall have provided to Loblaw a certificate of two senior officers of Shoppers Drug Mart certifying compliance with such covenants on the Effective Date;
- no Material Adverse Effect in respect of Shoppers Drug Mart shall have occurred after the date of the Arrangement Agreement and prior to the Effective Date; and
- holders of no more than 10% of all of the issued and outstanding Shoppers Drug Mart Shares shall have validly exercised Dissent Rights (and shall not have withdrawn such rights) in respect of the Arrangement.

COVENANTS

General

In the Arrangement Agreement, each of Shoppers Drug Mart and Loblaw has agreed to certain covenants, including customary covenants relating to the operation of their respective businesses in the ordinary course, and to use commercially reasonable efforts to satisfy the conditions precedent to their respective obligations under the Arrangement Agreement.

Loblaw Financing

Concurrently with the execution and delivery of the Arrangement Agreement, Loblaw delivered to Shoppers Drug Mart a copy of the executed Loblaw Commitment Letter, evidencing the commitment of Bank of America, N.A., Bank of America, N.A., Canada Branch and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “**Lenders**”) to provide Loblaw with the Loblaw Debt Financing, subject to the terms and conditions set forth therein. Loblaw has represented in the Arrangement Agreement that upon receipt of the proceeds contemplated by the Loblaw Commitment Letter, Loblaw will have sufficient cash funds (including available cash held by Shoppers Drug Mart and its Subsidiaries) and borrowing capacity to pay all amounts to be paid by it pursuant to the Arrangement Agreement and to perform its obligations thereunder.

Loblaw has agreed under the Arrangement Agreement to take all actions, and do, or cause to be done, all things necessary to arrange the Loblaw Debt Financing on the terms and conditions described in the Loblaw Commitment Letter. If the Loblaw Debt Financing or any alternative financing is not obtained, Loblaw will continue to be obligated to consummate the Arrangement on the terms contemplated by the Arrangement Agreement and the failure to obtain the Debt Financing or any alternative financing is not a condition to the obligations of Loblaw under the Arrangement Agreement, including its obligations to complete the Arrangement.

Loblaw Board of Directors

The Arrangement Agreement provides that upon the completion of the Arrangement, Loblaw shall take all necessary actions to ensure that the board of directors of Loblaw shall consist of fourteen directors including four current directors of Shoppers Drug Mart to be identified and agreed upon by Shoppers Drug Mart and Loblaw, acting reasonably, prior to the Effective Date.

Loblaw Supplemental Listing Application

The Arrangement Agreement provides that as soon as reasonably practicable, Loblaw shall apply to list the Loblaw Shares issuable pursuant to the Arrangement and upon the exercise of the Replacement Options on the TSX and shall use its commercially reasonable efforts to obtain approval, subject to customary conditions, for the listing of such Loblaw Shares on the TSX.

Competition Act Matters

Shoppers Drug Mart and Loblaw have agreed to certain steps in furtherance of obtaining Competition Act Approval, including:

- Within 60 days of the date of the Arrangement Agreement or such other date as Shoppers Drug Mart and Loblaw may agree, Loblaw and Shoppers Drug Mart shall each make a pre-merger notification filing in respect of the Arrangement with the Commissioner in accordance with Part IX of the Competition Act, and shall provide to the Commissioner at the earliest practicable date all additional information, documents or other materials that may be requested by the Commissioner in connection with his review of the Arrangement.
- Within 60 days of the date of the Arrangement Agreement or such other date as Shoppers Drug Mart and Loblaw may agree, Loblaw shall submit to the Commissioner a request for an ARC.
- In the event that Loblaw and/or Shoppers Drug Mart receive a SIR in connection with the Arrangement, Loblaw and/or Shoppers Drug Mart, as applicable, shall use its best efforts to respond to the SIR as soon as possible, and in any event, no later than 75 days after receiving the SIR.
- Loblaw shall use its best efforts to obtain Competition Act Approval as soon as reasonably practicable but, in any event, no later than the Outside Date, including, without limitation, proposing, negotiating, agreeing to and effecting, by undertaking, consent agreement, hold separate agreement or otherwise: (i) the sale, divestiture, licensing or disposition of all or any part of the businesses or assets of Loblaw or Shoppers Drug Mart; (ii) the termination of any existing contractual rights, relationships and obligations, or entry into or amendment of any licensing arrangements; (iii) the taking of any action that, after consummation of the Arrangement, would limit the freedom of action of, or impose any other requirement on, Loblaw with respect to the operation of one or more of the businesses, or the assets, of Loblaw or Shoppers Drug Mart; and (iv) any other remedial action whatsoever that may be necessary in order to obtain Competition Act Approval prior to the Outside Date, provided that any such action is conditioned upon the completion of the Arrangement. Loblaw shall further use its best efforts to avoid, oppose, or seek to have lifted or rescinded, any application for, or any resulting injunction or restraining or other order seeking to stop, or that otherwise adversely affects its ability to consummate, the Arrangement contemplated by the Arrangement Agreement.
- Loblaw and Shoppers Drug Mart shall consult and cooperate with each other in connection with the effort to obtain Competition Act Approval.

Shoppers Drug Mart Non-Solicitation

Pursuant to the Arrangement Agreement, Shoppers Drug Mart has agreed to not directly or indirectly, through any Representative:

- solicit, knowingly facilitate, initiate or encourage any Acquisition Proposal in respect of Shoppers Drug Mart;
- enter into or participate in any discussions or negotiations regarding an Acquisition Proposal, or furnish to any other Person any information with respect to its businesses, properties, operations, prospects or conditions (financial or otherwise) in connection with an Acquisition Proposal or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt of any other Person to do or seek to do any of the foregoing;
- waive, or otherwise forbear in the enforcement of, or enter into or participate in any discussions, negotiations or agreements to waive or otherwise forbear in respect of, any rights or other benefits under confidential information agreements, including any “standstill provisions” thereunder, or any other standstill arrangements; or
- accept, recommend, approve or enter into an agreement to implement an Acquisition Proposal;

provided, however, that Shoppers Drug Mart and its Representatives may prior to the approval of the Arrangement Resolution at the Meeting:

- enter into or participate in any discussions or negotiations with a third party who, without any breach of the non-solicitation provisions of the Arrangement Agreement by Shoppers Drug Mart or its Representatives, seeks to initiate such discussions or negotiations and, subject to execution of a confidentiality agreement in favour of Shoppers Drug Mart substantially similar to the Confidentiality Agreement (provided that such confidentiality agreement shall provide for disclosure thereof (along with all information provided thereunder) to Loblaw), may furnish to such third party information concerning Shoppers Drug Mart and its business, properties and assets if, and only to the extent that the third party has first made a written bona fide Acquisition Proposal which the Shoppers Drug Mart Board determines in good faith could reasonably be expected to lead to a Superior Proposal;
- comply with OSC Rule 62-504 – *Take-Over Bids and Issuer Bids* and similar provisions under Canadian Securities Laws relating to the provision of directors’ circulars and make appropriate disclosure with respect thereto to its securityholders; and
- accept, recommend, approve or enter into an agreement to implement a Superior Proposal from a third party, but only if prior to such acceptance, recommendation, approval or agreement: (i) the Shoppers Drug Mart Board concludes in good faith, after considering all proposals to adjust the terms and conditions of the Arrangement Agreement and after receiving the advice of outside counsel that the failure to take such action would be inconsistent with its fiduciary duties under applicable Laws; (ii) Shoppers Drug Mart complies with its obligations to notify Loblaw of the Superior Proposal set forth in the Arrangement Agreement; and (iii) Shoppers Drug Mart terminates the Arrangement Agreement in accordance with its provisions, and concurrently therewith pays the Termination Payment to Loblaw.

Shoppers Drug Mart has agreed to provide notice to Loblaw of any Acquisition Proposal or any proposal, inquiry or offer that could lead to an Acquisition Proposal or any amendments to the foregoing or any request for non-public information relating to it or any of its Subsidiaries in connection with such an

Acquisition Proposal or for access to the properties, books or records of Shoppers Drug Mart or any of its Subsidiaries by any Person that informs Shoppers Drug Mart, any member of the Shoppers Drug Mart Board, or any of Shoppers Drug Mart's Subsidiaries that it is considering making, or has made, an Acquisition Proposal. Such notice to Loblaw shall be made, from time to time, at first forthwith orally and then promptly (and in any event within 24 hours) in writing and shall indicate the identity of the Person or Persons making the proposal, inquiry, offer or request (which written notice shall include a copy of any such proposal (and any amendments or supplements thereto)) and if not previously provided to Loblaw, make available copies of all information provided to the third party. Shoppers Drug Mart shall keep Loblaw informed of the status and details of any such inquiry, offer or proposal and answer Loblaw's reasonable questions with respect thereto.

If Shoppers Drug Mart receives an Acquisition Proposal that it determines is a Superior Proposal, it shall give Loblaw, orally and in writing, at least five days advance notice of any decision by the Shoppers Drug Mart Board to accept, recommend, approve or enter into an agreement to implement the Acquisition Proposal, which notice shall confirm that the Shoppers Drug Mart Board has determined that such Acquisition Proposal constitutes a Superior Proposal, shall identify the third party making the Acquisition Proposal and shall provide a true and complete copy thereof and any amendments thereto. During such five day period, Shoppers Drug Mart agrees not to accept, recommend, approve or enter into any agreement to implement such Acquisition Proposal and not to release the party making the Acquisition Proposal from any standstill provisions and shall not withdraw, redefine, modify or change its recommendation in respect of the Arrangement. In addition, during such five day period Shoppers Drug Mart shall, and shall cause its financial and legal advisors to, if requested by Loblaw, negotiate in good faith with Loblaw and its financial and legal advisors to make such adjustments in the terms and conditions of the Arrangement Agreement and the Arrangement as would enable Shoppers Drug Mart to proceed with the Arrangement as amended rather than the Acquisition Proposal. In the event Loblaw proposes to amend the Arrangement Agreement and the Arrangement on a basis such that the Shoppers Drug Mart Board determines that the Acquisition Proposal is no longer a Superior Proposal and so advises the board of directors of Loblaw prior to the expiry of such period, the Shoppers Drug Mart Board shall not accept, recommend, approve or enter into any agreement to implement such Acquisition Proposal and shall not release the party making the Acquisition Proposal from any standstill provisions and shall not withdraw, redefine, modify or change its recommendation in respect of the Arrangement. In the event that Shoppers Drug Mart provides the notice contemplated above on a date which is fewer than five business days prior to the Meeting, Shoppers Drug Mart shall be entitled to adjourn or postpone the Meeting to a date that is not more than ten business days after the date of such notice.

Nothing contained in the Arrangement Agreement shall prohibit the Shoppers Drug Mart Board from withdrawing, modifying, qualifying or changing its recommendation to the Shoppers Drug Mart Shareholders in respect of the transactions contemplated herein prior to the approval of the Arrangement by such shareholders, if the Shoppers Drug Mart Board determines, in good faith (after consultation with its financial advisor(s) and after receiving advice of outside counsel), that the failure to make such withdrawal, modification, qualification or change would be inconsistent with its fiduciary duties under applicable Laws; provided that: (i) prior to making any such withdrawal, modification, qualification or change of recommendation, Shoppers Drug Mart shall give to Loblaw not less than 48 hours' notice of its intention thereof; and (ii) the foregoing shall not relieve Shoppers Drug Mart from its obligation to proceed to call and hold the Meeting (provided that, except as required under applicable Laws, Shoppers Drug Mart shall be relieved from its obligations to actively solicit proxies in favour of the Arrangement in such circumstances), except in circumstances where the Arrangement Agreement is terminated in accordance with the terms hereof.

TERMINATION OF THE ARRANGEMENT AGREEMENT

The Arrangement Agreement may be terminated at any time prior to the Effective Date:

- (a) by mutual written consent of Loblaw and Shoppers Drug Mart;
- (b) by either Loblaw or Shoppers Drug Mart if the Shoppers Drug Mart Arrangement Resolution shall have failed to receive the requisite vote at the Meeting (including any adjournment or postponement thereof) in accordance with the Interim Order;
- (c) by Shoppers Drug Mart if the Loblaw Shareholder Approval is not obtained;
- (d) by either Loblaw or Shoppers Drug Mart if the Effective Time shall not have occurred on or prior to the Outside Date, except that the right to terminate the Arrangement Agreement in such circumstances shall not be available to any party whose failure to fulfill any of its obligations or breach of any of its representations or warranties under the Arrangement Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur by the Outside Date;
- (e) by Loblaw if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Shoppers Drug Mart set forth in the Arrangement Agreement shall have occurred that would cause the certain conditions set forth therein not to be satisfied, and such conditions are incapable of being satisfied by the Outside Date as reasonably determined by Loblaw and provided that Loblaw is not then in breach of the Arrangement Agreement so as to cause certain conditions therein not to be satisfied;
- (f) by Shoppers Drug Mart if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Loblaw set forth in the Arrangement Agreement shall have occurred that would cause the conditions set forth therein not to be satisfied, and such conditions are incapable of being satisfied by the Outside Date as reasonably determined by Shoppers Drug Mart and provided that Shoppers Drug Mart is not then in breach of the Arrangement Agreement so as to cause certain conditions therein not to be satisfied;
- (g) by Loblaw upon the occurrence of a Damages Event; or
- (h) by Shoppers Drug Mart to accept, recommend, approve or enter into an agreement to implement a Superior Proposal in accordance with the Arrangement Agreement, provided that it: (i) has complied with its obligations set forth in the non-solicitation provisions of the Arrangement Agreement; and (ii) concurrently pays the Termination Payment.

Termination Payment

If at any time after the execution of the Arrangement Agreement:

- (a) the Shoppers Drug Mart Board has withdrawn, modified, qualified or changed any of its recommendations or determinations referred to in the Arrangement Agreement in a manner adverse to Loblaw or shall have resolved to do so prior to the Effective Date, or has failed to publicly reconfirm any such recommendations, prior to the earlier of five days following such request by Loblaw or 72 hours prior to the Meeting (unless Loblaw is then in material breach of its obligations under the Arrangement Agreement and such withdrawal, modification, qualification or change relates to such breach, or such withdrawal, modification, qualification or change relates to the occurrence of a Material Adverse Effect in respect of Loblaw);

- (b) a bona fide Acquisition Proposal is publicly announced, proposed, offered or made to the Shoppers Drug Mart Shareholders or any Person shall have publicly announced an intention to make a bona fide Acquisition Proposal in respect of Shoppers Drug Mart and: (i) after such Acquisition Proposal shall have been made known, made or announced, the Shoppers Drug Mart Shareholders do not approve the Arrangement or vote upon the Arrangement Resolution; or (ii) the Arrangement Agreement is terminated by Loblaw pursuant to paragraph (d) in the section immediately above entitled “Termination of the Arrangement Agreement”, and in the case of either (i) or (ii) such Acquisition Proposal or an amended version thereof relating to Shoppers Drug Mart is consummated or effected as applicable within 12 months of the date the first Acquisition Proposal is publicly announced, proposed, offered or made; and for the purpose of this paragraph the references in the definition of “Acquisition Proposal” to “20% or more of any voting or equity securities” shall be deemed to be references to “50% or more of any voting or equity securities”, and the references to “20% or more of the consolidated assets” shall be deemed to be references to “50% or more of the consolidated assets”; or
- (c) Shoppers Drug Mart terminates the Arrangement Agreement pursuant to paragraph (h) in the section immediately above entitled “Termination of the Arrangement Agreement”;

(each of the above being a “**Damages Event**”) then in the event of the termination of the Arrangement Agreement, Shoppers Drug Mart is in certain circumstances required to pay to Loblaw, or as Loblaw may direct, the amount of \$300 million (the “**Termination Payment**”) as liquidated damages in immediately available funds to an account designated by Loblaw at the time determined in accordance with the Arrangement Agreement.

Shoppers Drug Mart Expense Payment

If: (i) the Arrangement Agreement is terminated because of the failure of the condition regarding the representations and warranties made by Shoppers Drug Mart; or (ii) the Arrangement Agreement is terminated by Loblaw if the Effective Time shall not have occurred on or prior to the Outside Date, and at the time of such termination there is a state of facts or circumstances that would cause the condition regarding the representations and warranties made by Shoppers Drug Mart not to be satisfied, Shoppers Drug Mart shall pay Loblaw an amount equal to \$30 million as reimbursement to Loblaw for its out-of-pocket expenses incurred in connection with the Arrangement; provided that if Loblaw is in material breach of its obligations under the Arrangement Agreement at the time of the termination of the Agreement such amount will not be payable.

Loblaw Expense Payment

If: (i) the Arrangement Agreement is terminated because of the failure of the condition regarding the representations and warranties made by Loblaw; or (ii) the Arrangement Agreement is terminated by Shoppers Drug Mart if the Effective Time shall not have occurred on or prior to the Outside Date, and at the time of such termination there is a state of facts or circumstances that would cause the condition regarding the representations and warranties made by Loblaw not to be satisfied, Loblaw shall pay Shoppers Drug Mart an amount equal to \$30 million as reimbursement to Shoppers Drug Mart for its out-of-pocket expenses incurred in connection with the Arrangement; provided that if Shoppers Drug Mart is in material breach of its obligations under the Arrangement Agreement at the time of the termination of the Agreement such amount will not be payable.

AMENDMENT

The Arrangement Agreement and the Plan of Arrangement may, at any time and from time to time before or after the holding of the Meeting but not later than the Effective Time, be amended by mutual written agreement of Shoppers Drug Mart and Loblaw, subject to the Interim Order and the Final Order and applicable Laws.

REGULATORY MATTERS

CANADIAN SECURITIES LAW MATTERS

Shoppers Drug Mart is a reporting issuer (or the equivalent) in all of the provinces and territories of Canada. Shoppers Drug Mart Shares currently trade on the TSX. After the Arrangement, Loblaw intends to delist the Shoppers Drug Mart Shares from the TSX. Loblaw is a reporting issuer in each province and territory of Canada. The Loblaw Shares are listed on the TSX under the symbol “L”.

The issue of Loblaw Shares pursuant to the Arrangement will constitute distributions of securities which are exempt from the prospectus requirements of the Canadian Securities Laws. Loblaw Shares may be resold in each province and territory of Canada, provided: (i) that Loblaw is a reporting issuer in a jurisdiction of Canada for the four months immediately preceding the trade; (ii) the trade is not a “control distribution” as defined in National Instrument 45-102 *Resale of Securities*; (iii) no unusual effort is made to prepare the market or create a demand for those securities; (iv) no extraordinary commission or consideration is paid in respect of that trade; and (v) if the selling security holder is an insider or officer of Loblaw (as such terms are defined by Canadian Securities Laws), the insider or officer has no reasonable grounds to believe that Loblaw is in default of Canadian Securities Laws. Each Shoppers Drug Mart Shareholder is urged to consult the holder’s professional advisors with respect to restrictions applicable to trades in Loblaw Shares under Canadian Securities Laws.

U.S. SECURITIES LAW MATTERS

The following discussion is a general overview of certain requirements of U.S. federal and state securities laws applicable to Shoppers Drug Mart Shareholders. Also see “Notice to Shoppers Drug Mart Shareholders in the United States”.

Shoppers Drug Mart Shareholders who resell Loblaw Shares must also comply with Canadian Securities Laws, as outlined above.

Status Under U.S. Federal Securities Laws

Neither Shoppers Drug Mart nor Loblaw has any class of securities registered under the Exchange Act or is otherwise subject to periodic reporting obligations under U.S. federal securities laws. Each of them is a “foreign private issuer” as defined in Rule 3b-4 under the Exchange Act.

Exemption Relied Upon from the Registration Requirements of the 1933 Act

The Loblaw Shares to be issued pursuant to the Arrangement have not been and will not be registered under the 1933 Act and will be issued in reliance on the exemption afforded by section 3(a)(10) of the 1933 Act and corresponding exemptions under state securities laws. Section 3(a)(10) of the 1933 Act exempts from registration the offer and sale of a security which is issued in specified exchange transactions where, among other things, the fairness of the terms and conditions of such exchange are

approved after a hearing on the fairness of such terms and conditions, at which all persons to whom it is proposed to issue securities in such exchange have the right to appear, by a court or governmental authority expressly authorized by law to grant such approval and to hold such a hearing. Accordingly, the Final Order, if granted by the Court, constitutes a basis for the exemption from the registration requirements of the 1933 Act with respect to the Loblaw Shares issued in connection with the Arrangement.

Resale of Loblaw Shares Within the United States

The Loblaw Shares to be issued under the Arrangement will be freely transferable under United States federal securities laws, except that the 1933 Act imposes restrictions on the resale of Loblaw Shares received pursuant to the Arrangement by persons who are, or within three months before the resale were, “affiliates” of Loblaw. An “affiliate” of an issuer is a person that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the issuer. Typically, persons who are executive officers, directors or 10% or greater shareholders of an issuer may be considered to be its “affiliates”.

Any holder of Loblaw Shares who is an affiliate of Loblaw at the time of a proposed resale, or has been an affiliate within three months before a proposed resale, is urged to consult with its own legal advisor to ensure that any proposed resale of Loblaw Shares issued to them under the Arrangement complies with applicable 1933 Act requirements.

State “Blue Sky” Securities Laws

No Loblaw Shares issued in the Arrangement will be delivered to persons in any state where the applicable state “blue sky” securities laws do not provide an exemption from the registration or qualification requirements of securities laws of that state. All Loblaw Shares that would otherwise be delivered to persons in such states may be sold on their behalf, and holders may receive a cash payment in the amount of their pro rata entitlement to the net sale proceeds.

COMPETITION ACT APPROVAL

The Arrangement is conditional upon the receipt of Competition Act Approval. Under the Competition Act, the acquisition of shares of a corporation that carries on an operating business in Canada may require pre-merger notification if certain size of parties and size of transaction thresholds set out in sections 109 and 110 of the Competition Act are exceeded. It has been determined that pre-merger notification is required in respect of the Arrangement.

Subject to certain limited exceptions, the parties to a notifiable transaction cannot complete the transaction until they have submitted the information prescribed pursuant to subsection 114(1) of the Competition Act to the Commissioner and the applicable waiting period has expired or been terminated by the Commissioner. The waiting period is 30 calendar days after the day on which the parties to the transaction submit the prescribed information, provided that, before the expiry of this period, the Commissioner has not issued a SIR pursuant to subsection 114(2) of the Competition Act. If the Commissioner issues a SIR, the parties cannot complete the transaction until 30 calendar days after compliance with the SIR, provided that no order is in effect prohibiting completion at the relevant time. Alternatively, or in addition to filing the prescribed information, a party to a notifiable transaction may apply to the Commissioner for an ARC (which may be issued by the Commissioner and thereafter precludes him from challenging the transaction based on the information provided), or a “no-action” letter (which may be issued by the Commissioner if he does not, at that time, intend to challenge the transaction by making an application under section 92 of the Competition Act). The Commissioner may challenge a transaction either before the transaction is completed or within one year after it was substantially

completed (unless an ARC was issued) if he is of the view that the transaction would be likely to prevent or lessen competition substantially.

Under the Arrangement Agreement, Shoppers Drug Mart and Loblaw have agreed to submit their pre-merger notification filings in accordance with Part IX of the Competition Act, and Loblaw has agreed to submit to the Commissioner a request for an ARC, within 60 days of the date of the Arrangement Agreement or such other date as Shoppers Drug Mart and Loblaw may agree.

Loblaw has agreed under the Arrangement Agreement to use its best efforts to obtain Competition Act Approval as soon as reasonably practicable but, in any event, no later than the Outside Date.

TSX APPROVALS

The Loblaw Shares are listed on the TSX and trade under the symbol “L”. Loblaw has applied to the TSX to list the Loblaw Shares issuable pursuant to the Arrangement and it is a condition of closing of the Arrangement that the Loblaw Shares issued to Shoppers Drug Mart Shareholders and issuable upon the exercise of Replacement Options pursuant to the Arrangement be approved for listing on the TSX.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Osler, Hoskin & Harcourt LLP, the following summary describes the principal Canadian federal income tax considerations relating to the Arrangement under the ITA generally applicable to beneficial owners of Shoppers Drug Mart Shares who, for purposes of the ITA, and at all relevant times, (1) hold their Shoppers Drug Mart Shares, and will hold any Loblaw Shares received pursuant to the Arrangement, as capital property, (2) deal at arm’s length with Shoppers Drug Mart and Loblaw, (3) are not affiliated with Shoppers Drug Mart or Loblaw, and (4) have not entered and will not enter into, with respect to their Shoppers Drug Mart Shares or any Loblaw Shares received pursuant to the Arrangement, a “derivative forward agreement” as that term is defined in proposed amendments contained in a Notice of Ways and Means Motion that accompanied the federal budget tabled by the Minister of Finance (Canada) on March 21, 2013 (a “**Holder**”). Generally, the Shoppers Drug Mart Shares and Loblaw Shares will be capital property to a Holder provided the Holder does not acquire or hold those shares in the course of carrying on a business or as part of an adventure or concern in the nature of trade.

This summary does not apply to a person holding Shoppers Drug Mart Options, Shoppers Drug Mart RSUs, Shoppers Drug Mart DSUs or other conversion or exchange rights to acquire Shoppers Drug Mart Shares or to a Holder who received Shoppers Drug Mart Shares upon exercise of a stock option.

This summary is based on the current provisions of the ITA and counsel’s understanding of the current administrative policies and assessing practices and policies of the CRA published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the ITA publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “**Proposed Amendments**”) and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurances can be given that the Proposed Amendments will be enacted as proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative policy or assessing practice whether by legislative, administrative or judicial action nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction, which may differ from those discussed herein. This summary does not take into account the Income Tax Application Rules applicable to shareholders who have held shares continuously since before 1972 (or are deemed to have done so under those rules).

This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular shareholder. This summary is not exhaustive of all Canadian federal income tax considerations applicable to the Arrangement and/or the holding of Loblaw Shares. Accordingly, Shoppers Drug Mart Shareholders should consult their own tax advisors having regard to their own circumstances.

HOLDERS RESIDENT IN CANADA

This portion of the summary is generally applicable to a Holder who, at all relevant times for purposes of the ITA and any applicable income tax convention, is, or is deemed to be, resident in Canada (a “**Resident Holder**”). Certain Resident Holders may be entitled to make or may have already made the irrevocable election permitted by subsection 39(4) of the ITA, the effect of which may be to deem to be capital property any Shoppers Drug Mart Shares or Loblaw Shares (and all other “Canadian securities”, as defined in the ITA) owned by such Resident Holder in the taxation year in which the election is made and in all subsequent taxation years. Resident Holders whose Shoppers Drug Mart Shares might not otherwise be considered to be capital property should consult their own tax advisors concerning this election.

This portion of the summary is not applicable to (i) a shareholder that is a “specified financial institution”, (ii) a shareholder an interest in which is a “tax shelter investment”, (iii) a shareholder that is, for purposes of certain rules (referred to as the mark-to-market rules) applicable to securities held by financial institutions, a “financial institution”, or (iv) a shareholder that reports its “Canadian tax results” in a currency other than Canadian currency. Such shareholders should consult their own tax advisors.

Non-Rollover Transaction

This portion of the summary is generally applicable to a Resident Holder who does not make a Joint Tax Election in respect of the disposition of Shoppers Drug Mart Shares under the Arrangement.

A Resident Holder will be considered to have disposed of his, her or its Shoppers Drug Mart Shares under the Arrangement and will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base of the Shoppers Drug Mart Shares to the Resident Holder immediately before the disposition. For this purpose the proceeds of disposition will equal the sum of (a) the cash consideration received and (b) the fair market value at the Effective Time of any Loblaw Shares acquired by such Resident Holder on the exchange. See “Taxation of Capital Gains and Capital Losses” below.

The cost to a Resident Holder of any Loblaw Shares acquired on the exchange will be equal to the fair market value of the Shoppers Drug Mart Shares held by the Resident Holder at the Effective Time less the cash consideration received on the exchange. For the purpose of determining the adjusted cost base at any time to a Resident Holder of Loblaw Shares acquired under the Arrangement, the adjusted cost base of such shares will generally be determined by averaging the cost of such Loblaw Shares with the adjusted cost base of all other shares of Loblaw held by the Resident Holder as capital property at that time and acquired after December 31, 1971.

Rollover Transaction

A Resident Holder who is an Eligible Holder who receives Loblaw Shares and cash under the Arrangement and who makes a Joint Tax Election with Loblaw will be considered to have disposed of his, her or its Shoppers Drug Mart Shares for proceeds of disposition equal to the amount at which such Eligible Holder and Loblaw elect in the Joint Tax Election. See “The Arrangement — Elections, Pro-Ration And Exchange Procedure — Tax Elections”, above. The proceeds of disposition so determined in the Joint Tax Election will be used in determining whether a Resident Holder realizes a capital gain on the

disposition pursuant to the Arrangement. There are detailed rules set out in the ITA prescribing limits as to the amount at which an Eligible Holder and Loblaw can elect in a Joint Tax Election.

In general, the elected amount cannot be less than: (i) the amount of any cash received by the Eligible Holder pursuant to the Arrangement (including cash received in lieu of fractional shares); or (ii) the lesser of the adjusted cost base of the Shoppers Drug Mart Shares to such Eligible Holder, determined at the Effective Time, and the fair market value of such Eligible Holder's Shoppers Drug Mart Shares at that time. In addition, the elected amount cannot be greater than the fair market value of such Eligible Holder's Shoppers Drug Mart Shares at such time. Elected amounts which do not otherwise comply with the foregoing limitations will be automatically adjusted under the ITA so that they are in compliance.

Provided that at the time of the disposition, the Eligible Holder's adjusted cost base of the Shoppers Drug Mart Shares equals or exceeds the cash consideration payable to such Eligible Holder, the Eligible Holder may jointly elect with Loblaw so as not to realize a capital gain on the disposition for purposes of the ITA. The aggregate cost to the Eligible Holder of the Loblaw Shares received as consideration for the disposition of the Shoppers Drug Mart Shares will be equal to the amount by which the proceeds of disposition of such Shoppers Drug Mart Shares (being the elected amount, where a Joint Tax Election is made) exceed the cash consideration received on the exchange. The adjusted cost base to an Eligible Holder at any time of Loblaw Shares acquired under the Arrangement will generally be determined by averaging the cost of such Loblaw Shares and the adjusted cost base of all other Loblaw Shares acquired by the Eligible Holder after December 31, 1971 and held by the Eligible Holder as capital property at that time.

Unless a Joint Tax Election is made, Resident Holders may, as described under the subheading "Non-Rollover Transaction", realize capital gains or losses on the disposition of their Shoppers Drug Mart Shares pursuant to the Arrangement. Consequently, Resident Holders should consult their own tax advisors as to whether they are eligible to make, and whether they should make, a Joint Tax Election.

If a Joint Tax Election is made, an Eligible Holder may nonetheless realize a capital gain on the disposition of the Eligible Holder's Shoppers Drug Mart Shares pursuant to the Arrangement to the extent that the cash consideration payable to such Eligible Holder pursuant to the Arrangement, net of any reasonable costs of disposition, exceeds the Eligible Holder's adjusted cost base of the Eligible Holder's Shoppers Drug Mart Shares.

Dividends on Loblaw Shares

A Resident Holder will be required to include in computing its income for a taxation year any dividends received (or deemed to be received) on the Loblaw Shares. In the case of a Resident Holder that is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit applicable to any dividends designated by Loblaw as an eligible dividend in accordance with the provisions of the ITA. A dividend received (or deemed to be received) by a Resident Holder that is a corporation will generally be deductible in computing the corporation's taxable income.

A Resident Holder that is "private corporation", as defined in the ITA, or any other corporation controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), will generally be liable to pay a refundable tax of 33 $\frac{1}{3}$ % under Part IV of the ITA on dividends received (or deemed to be received) on the Loblaw Shares to the extent such dividends are deductible in computing the Resident Holder's taxable income for the taxation year.

Disposition of Loblaw Shares

A disposition or deemed disposition of Loblaw Shares by a Resident Holder will generally result in a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of the disposition, exceed (or are less than) the adjusted cost base to the holder of the Loblaw Shares immediately before the disposition. See “Taxation of Capital Gains and Capital Losses” below.

Taxation of Capital Gains and Capital Losses

Generally, a Resident Holder is required to include in computing the Resident Holder’s income for a taxation year one-half of the amount of any capital gain (a “taxable capital gain”) realized in the year. Subject to and in accordance with the provisions of the ITA, a Resident Holder is required to deduct one-half of the amount of any capital loss (an “allowable capital loss”) realized in a taxation year from taxable capital gains realized by the Resident Holder in the year and allowable capital losses in excess of taxable capital gains for the year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Shoppers Drug Mart Share or a Loblaw Share may be reduced by the amount of any dividends received (or deemed to be received) by the Resident Holder on such share to the extent and under the circumstances prescribed by the ITA. Similar rules may apply where a Shoppers Drug Mart Share or a Loblaw Share is owned by a partnership or trust of which a corporation, trust or partnership is a member or beneficiary. Such Resident Holders should consult their own advisors.

Dissenting Shoppers Drug Mart Shareholders

A Validly Dissenting Shoppers Drug Mart Shareholder will be deemed to have transferred the Validly Dissenting Shoppers Drug Mart Shareholder’s Shoppers Drug Mart Shares to Loblaw as of the Effective Time and will receive a cash payment from Loblaw in respect of the fair value of its Shoppers Drug Mart Shares. Such a Validly Dissenting Shoppers Drug Mart Shareholder will be considered to have disposed of the Shoppers Drug Mart Shares for proceeds of disposition equal to the amount received by the Validly Dissenting Shoppers Drug Mart Shareholder (less any interest awarded by a court). As a result, such Validly Dissenting Shoppers Drug Mart Shareholder will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition received exceed (or are less than) the aggregate of (i) the adjusted cost base to the Validly Dissenting Shoppers Drug Mart Shareholder of the Shoppers Drug Mart Shares; and (ii) any reasonable costs of disposition. See “Taxation of Capital Gains and Capital Losses” above for a general description of the treatment of capital gains and capital losses under the ITA.

Interest awarded to a Validly Dissenting Shoppers Drug Mart Shareholder by a court will be included in the Validly Dissenting Shoppers Drug Mart Shareholder’s income for the purposes of the ITA.

A Resident Holder who exercises the Resident Holder’s Dissent Rights but who is not ultimately determined to be entitled to be paid fair value for the Shoppers Drug Mart Shares held by such Resident Holder will be deemed to have participated in the Arrangement and will receive cash consideration and Loblaw Shares. In such an event, the tax consequences as discussed above under the heading “Non-Rollover Transaction” will generally apply.

Eligibility of Loblaw Shares for Investment

On the date hereof, the Loblaw Shares are qualified investments under the ITA for trusts governed by registered retirement savings plans (“RRSP”), registered retirement income funds (“RRIF”), registered

education savings plans, deferred profit sharing plans, registered disability savings plans and tax-free savings accounts (“**TFSA**”) and, in the case of an RRSP, an RRIF or a TFSA, provided the annuitant of the RRSP or RRIF or the holder of the TFSA, as the case may be, does not have a "significant interest" (within the meaning of the ITA) in Loblaw or, if proposed amendments issued by the Department of Finance on December 21, 2012 are not enacted as proposed, in a corporation, partnership or trust that does not deal at arm’s length with Loblaw, will not be a prohibited investment under the ITA for such RRSP, RRIF or TFSA.

HOLDERS NOT RESIDENT IN CANADA

This portion of the summary is generally applicable to a Holder who, at all relevant times, for the purposes of the ITA, is not, and is not deemed to be, resident in Canada and does not use or hold Shoppers Drug Mart Shares or Loblaw Shares received pursuant to the Arrangement in a business carried on in Canada or deemed to be carried on in Canada (a “**Non-Resident Holder**”). Special rules, which are not discussed in this summary, may apply to a non-Canadian holder that is an insurer that carries on an insurance business in Canada and elsewhere.

Disposition of Shoppers Drug Mart Shares

A Non-Resident Holder who participates in the Arrangement will not be subject to tax under the ITA on the disposition of Shoppers Drug Mart Shares, unless the Shoppers Drug Mart Shares are “taxable Canadian property” to the Non-Resident Holder for purposes of the ITA and the Non-Resident Holder is not entitled to relief under an applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident. See “Taxable Canadian Property” below for a description of the circumstances in which Shoppers Drug Mart Shares will constitute taxable Canadian property to a Non-Resident Holder.

Dividends on Loblaw Shares

Dividends paid or credited on the Loblaw Shares or deemed to be paid or credited on the Loblaw Shares to a Non-Resident Holder will be subject to Canadian withholding tax at the rate of 25%, subject to any reduction in the rate of withholding to which the Non-Resident Holder is entitled under any applicable income tax convention.

Disposition of Loblaw Shares

A Non-Resident Holder will not be subject to tax under the ITA on any capital gain realized on a disposition or deemed disposition of Loblaw Shares, unless the Loblaw Shares are “taxable Canadian property” to the Non-Resident Holder for purposes of the ITA and the Non-Resident Holder is not entitled to relief under an applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident. See “Taxable Canadian Property” below for a description of the circumstances in which Loblaw Shares will constitute taxable Canadian property to a Non-Resident Holder.

Dissenting Non-Resident Holders

A Non-Resident Holder who is a Validly Dissenting Shoppers Drug Mart Shareholder will not be subject to tax under the ITA on the deemed disposition of Shoppers Drug Mart Shares held by such Non-Resident Holder, unless the Shoppers Drug Mart Shares are “taxable Canadian property” to the Non-Resident Holder for purposes of the ITA and the Non-Resident Holder is not entitled to relief under an applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident.

See “Taxable Canadian Property” below for a description of the circumstances in which Shoppers Drug Mart Shares will constitute taxable Canadian property to a Non-Resident Holder.

Interest awarded to a Non-Resident Holder who is a Validly Dissenting Shoppers Drug Mart Shareholder by a court will not be subject to Canadian withholding tax.

Taxable Canadian Property

Generally, the Shoppers Drug Mart Shares or Loblaw Shares will not constitute taxable Canadian property to a Non-Resident Holder at a particular time provided that the Shoppers Drug Mart Shares or Loblaw Shares are listed at that time on a designated stock exchange (which includes the TSX), unless at any particular time during the 60-month period that ends at that time (1) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal with at arm’s length, or the Non-Resident Holder together with all such persons, has owned 25% or more of the issued shares of any class or series of the capital stock of Shoppers Drug Mart or Loblaw, respectively, and (2) more than 50% of the fair market value of the Shoppers Drug Mart Shares or Loblaw Shares, respectively, was derived directly or indirectly from one or any combination of: (i) real or immovable properties situated in Canada, (ii) “Canadian resource properties” (as defined in the ITA), (iii) “timber resource properties” (as defined in the ITA), and (iv) options in respect of, or interests in, or for civil law rights in, property in any of the foregoing whether or not the property exists. Notwithstanding the foregoing, in certain circumstances set out in the ITA, Shoppers Drug Mart Shares or Loblaw Shares could be deemed to be taxable Canadian property. Non-Resident Holders whose Shoppers Drug Mart Shares or Loblaw Shares received pursuant to the Arrangement may constitute taxable Canadian property should consult their own tax advisors.

Even if the Shoppers Drug Mart Shares or Loblaw Shares are taxable Canadian property to a Non-Resident Holder, a taxable capital gain resulting from the disposition or deemed disposition of such shares will not be included in computing the Non-Resident Holder’s taxable income earned in Canada for the purposes of the ITA if, at the time of the disposition or deemed disposition, the Shoppers Drug Mart Shares or Loblaw Shares, as the case may be, constitute “treaty-protected property” of the Non-Resident Holder for purposes of the ITA. Shoppers Drug Mart Shares or Loblaw Shares will generally be considered “treaty-protected property” of a Non-Resident Holder for purposes of the ITA at the time of the disposition or deemed disposition if the gain from their disposition or deemed disposition would, because of an applicable income tax treaty between Canada and the country in which the Non-Resident Holder is resident for purposes of such treaty, be exempt from tax under the ITA.

RISKS RELATING TO THE ARRANGEMENT AND THE COMBINED COMPANY

The following risk factors should be considered by Shoppers Drug Mart Shareholders in evaluating whether to approve the Arrangement Resolution. These risk factors should be considered in conjunction with the other information contained in or incorporated by reference into this Circular. These risk factors relate to the Arrangement and the Combined Company. For information on risks and uncertainties relating to the business of Shoppers Drug Mart and the Shoppers Drug Mart Shares, see “Risk Factors” in “Information Relating to Shoppers Drug Mart”. For information on risks and uncertainties relating to the business of Loblaw and the Loblaw Shares, see “Risk Factors” in “Information Relating to Loblaw”.

Because the market price of the Loblaw Shares and the Shoppers Drug Mart Shares will fluctuate and the Exchange Ratio for the Share Consideration is fixed, Shoppers Drug Mart Shareholders

cannot be certain of the market value of the Loblaw Shares they will receive for their Shoppers Drug Mart Shares under the Arrangement.

The Exchange Ratio for the Share Consideration is fixed and will not increase or decrease due to fluctuations in the market price of Loblaw Shares or Shoppers Drug Mart Shares. The market price of Loblaw Shares or Shoppers Drug Mart Shares could each fluctuate significantly prior to the Effective Date in response to various factors and events, including, without limitation, the differences between Loblaw's and Shoppers Drug Mart's actual financial or operating results and those expected by investors and analysts, changes in analysts' projections or recommendations, changes in general economic or market conditions, and broad market fluctuations. As a result of such fluctuations, historical market prices are not indicative of future market prices or the market value of the Loblaw Shares that Shoppers Drug Mart Shareholders may receive on the Effective Date. There can be no assurance that the market value of the Consideration that the holders of Shoppers Drug Mart Shares may receive on the Effective Date will equal or exceed the market value of the Shoppers Drug Mart Shares held by such Shoppers Drug Mart Shareholders prior to the Effective Date. There can also be no assurance that the trading price of the Loblaw Shares will not decline following the completion of the Arrangement.

There can be no certainty that all conditions precedent to the Arrangement will be satisfied. Failure to complete the Arrangement could negatively impact the market price of the Shoppers Drug Mart Shares.

The Arrangement is subject to certain conditions that may be outside the control of Shoppers Drug Mart, including, without limitation, the receipt of the Final Order and the receipt of Competition Act Approval. There can be no certainty, nor can Shoppers Drug Mart provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied. If the Arrangement is not completed, the market price of the Shoppers Drug Mart Shares may decline to the extent that the market price reflects a market assumption that the Arrangement will be completed. If the Arrangement is not completed and the Shoppers Drug Mart Board decides to seek another merger or business combination, there can be no assurance that it will be able to find a party willing to pay consideration for the Shoppers Drug Mart Shares that is equivalent to, or more attractive than, the Consideration payable pursuant to the Arrangement.

The Arrangement Agreement may be terminated by Shoppers Drug Mart or Loblaw in certain circumstances.

Each of Shoppers Drug Mart and Loblaw has the right to terminate the Arrangement Agreement and the Arrangement in certain circumstances. Accordingly, there is no certainty, nor can Shoppers Drug Mart provide any assurance, that the Arrangement Agreement will not be terminated by either Loblaw or Shoppers Drug Mart before the completion of the Arrangement. See "The Arrangement Agreement — Termination of the Arrangement Agreement".

The Termination Payment provided under the Arrangement Agreement may discourage other parties from attempting to acquire Shoppers Drug Mart.

Under the Arrangement Agreement, Shoppers Drug Mart would be required to pay a Termination Payment of \$300 million in the event the Arrangement Agreement is terminated in certain circumstances. This Termination Payment may discourage other parties from attempting to acquire Shoppers Drug Mart Shares or otherwise make an Acquisition Proposal to Shoppers Drug Mart, even if those parties would otherwise be willing to offer greater value to Shoppers Drug Mart Shareholders than that offered by Loblaw under the Arrangement.

In certain circumstances, if the Arrangement Agreement is terminated without any payment of the Termination Payment, Shoppers Drug Mart may be required to make an expense reimbursement payment to Loblaw.

Under the Arrangement Agreement, Shoppers Drug Mart would be required to make an expense reimbursement payment of \$30 million to Loblaw in the event the Arrangement Agreement is terminated in certain circumstances. Payment of this amount could have an adverse effect on Shoppers Drug Mart's financial condition following any such termination of the Arrangement Agreement. See "The Arrangement Agreement — Termination of the Arrangement Agreement — Shoppers Drug Mart Expense Payment".

Loblaw may be unable to successfully integrate the businesses of Loblaw and Shoppers Drug Mart and realize the anticipated benefits of the Arrangement.

The integration of Shoppers Drug Mart requires the dedication of substantial effort, time and resources on the part of management which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. There can be no assurance that management will be able to integrate the operations of each of the businesses successfully or achieve any of the synergies or other benefits that are anticipated as a result of the Arrangement. The extent to which synergies are realized and the timing of such cannot be assured. It is possible that the integration process could result in the loss of key employees, the disruption of the respective ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of management to maintain relationships with clients, suppliers, employees or to achieve the anticipated benefits of the Arrangement. Any inability of management to successfully integrate the operations of Loblaw and Shoppers Drug Mart, including, but not limited to, IT and financial reporting systems, could have a material adverse effect on the business, financial condition and results of operations of the Combined Company.

The Combined Company's indebtedness following completion of the Arrangement will be substantial. This indebtedness could have adverse consequences for the Combined Company, including by reducing funds available for other business purposes.

The Combined Company's degree of leverage as a result of the financing required to complete the Arrangement could have adverse consequences for the Combined Company, including: limiting the Combined Company's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; restricting the Combined Company's flexibility and discretion to operate the Combined Company's business; limiting the Combined Company's ability to declare dividends on its common shares and preferred shares; having to dedicate a portion of the Combined Company's cash flows from operations to the payment of interest on its existing indebtedness and not having such cash flows available for other purposes, including operations, capital expenditures and future business opportunities; exposing the Combined Company to increased interest expense on borrowings at variable rates; limiting the Combined Company's ability to adjust to changing market conditions; placing the Combined Company at a competitive disadvantage compared to its competitors that have less debt; making the Combined Company vulnerable in a downturn in general economic conditions; and making the Combined Company unable to make capital expenditures that are important to its growth and strategies.

RIGHTS OF DISSENTING SHOPPERS DRUG MART SHAREHOLDERS

The Court hearing the application for the Final Order has the discretion to alter the Dissent Rights described herein.

Registered Shoppers Drug Mart Shareholders are entitled to dissent from the Arrangement Resolution in the manner provided in section 190 of the CBCA, as modified by the Interim Order and the Plan of Arrangement and Final Order.

This section summarizes the provisions of section 190 of the CBCA, as modified by the Interim Order and the Plan of Arrangement. Registered Shoppers Drug Mart Shareholders who wish to dissent should obtain legal advice and carefully read the provisions of the Plan of Arrangement, the provisions of section 190 of the CBCA and the Interim Order, which are appended hereto at Appendix E, Appendix I and Appendix G, respectively.

Anyone who is a beneficial owner of Shoppers Drug Mart Shares registered in the name of an Intermediary and who wishes to dissent should be aware that only Registered Shoppers Drug Mart Shareholders are entitled to exercise Dissent Rights. A Registered Shoppers Drug Mart Shareholder who holds Shoppers Drug Mart Shares as an Intermediary for one or more beneficial owners, one or more of whom wish to exercise Dissent Rights, must exercise such Dissent Rights on behalf of such holder(s). In such case, the Dissent Notice should specify the number of Shoppers Drug Mart Shares held by the Intermediary for such beneficial owner. A Dissenting Shoppers Drug Mart Shareholder may dissent only with respect to all the Shoppers Drug Mart Shares held on behalf of any one beneficial owner and registered in the name of the Dissenting Shoppers Drug Mart Shareholder.

Each Registered Shoppers Drug Mart Shareholder who properly exercises Dissent Rights will be deemed to have transferred his, her or its Shoppers Drug Mart Shares or, in the event that the Registered Shoppers Drug Mart Shareholder is an Intermediary, the number of Shoppers Drug Mart Shares held on behalf of the beneficial owner who wishes to exercise Dissent Rights (the “**Dissenting Shoppers Drug Mart Shares**”), to Loblaw free and clear of any liens, claims and encumbrances, as of the Effective Date, and if it:

- (a) ultimately is entitled to be paid fair value for its Dissenting Shoppers Drug Mart Shares, will be entitled to be paid the fair value of such Dissenting Shoppers Drug Mart Shares and will not be entitled to any other payment or consideration (including any payment that would be payable under the Arrangement had it not exercised its Dissent Rights). **There can be no assurance that a Dissenting Shoppers Drug Mart Shareholder will receive consideration** for its Dissenting Shoppers Drug Mart Shares of equal value to the Consideration that such Dissenting Shoppers Drug Mart Shareholder would have received under the Arrangement; or
- (b) is ultimately not entitled, for any reason, to be paid fair value for its Dissenting Shoppers Drug Mart Shares, will be deemed to have participated in the Arrangement and to have transferred its Shoppers Drug Mart Shares to Loblaw in exchange for the Cash Consideration.

All Dissent Notices must be received by the Vice President, Legal Affairs & Secretary of Shoppers Drug Mart at its office located at 243 Consumers Road, Toronto, Ontario M2J 4W8, on or prior to 5:00 p.m. (Toronto time) on the day that is two (2) Business Days immediately preceding the date of

the Meeting (as it may be adjourned or postponed from time to time). It is important that Shoppers Drug Mart Shareholders strictly comply with this requirement, which is different from the statutory dissent provisions of the CBCA which would permit a Dissent Notice to be provided at or prior to the Meeting.

The filing of a Dissent Notice does not deprive a Registered Shoppers Drug Mart Shareholder of the right to vote at the Meeting; however, a Registered Shoppers Drug Mart Shareholder who has submitted a Dissent Notice and who votes in favour of the Arrangement Resolution will no longer be considered a Dissenting Shoppers Drug Mart Shareholder with respect to Dissenting Shoppers Drug Mart Shares voted in favour of the Arrangement Resolution. If such Dissenting Shoppers Drug Mart Shareholder votes in favour of the Arrangement Resolution in respect of a portion of the Shoppers Drug Mart Shares he, she or it holds as an Intermediary on behalf of any one beneficial owner, such vote approving the Arrangement Resolution will be deemed to apply to the entirety of the Dissenting Shoppers Drug Mart Shares held in the name of that beneficial owner, given that section 190 of the CBCA provides there is no right of partial dissent. **A vote against the Arrangement Resolution will not constitute a Dissent Notice.**

Within 10 days after the approval of the Arrangement Resolution, Shoppers Drug Mart is required to notify each Dissenting Shoppers Drug Shareholder that the Arrangement Resolution has been approved. Such notice is not required to be sent to a Registered Shoppers Drug Mart Shareholder who voted for the Arrangement Resolution or who has withdrawn a Dissent Notice previously filed.

A Dissenting Shoppers Drug Mart Shareholder must, within 20 days after the Dissenting Shoppers Drug Mart Shareholder receives notice that the Arrangement Resolution has been approved or, if the Dissenting Shoppers Drug Mart Shareholder does not receive such notice, within 20 days after the Dissenting Shoppers Drug Mart Shareholder learns that the Arrangement Resolution has been approved, send a Demand for Payment containing the Dissenting Shoppers Drug Mart Shareholder's name and address, the number of Dissenting Shoppers Drug Mart Shares held by the Dissenting Shoppers Drug Mart Shareholder, and a Demand for Payment of the fair value of the Dissenting Shoppers Drug Mart Shares. Within 30 days after sending a Demand for Payment, the Dissenting Shoppers Drug Mart Shareholder must send to the Vice President, Legal Affairs & Secretary of Shoppers Drug Mart at its office located at 243 Consumers Road, Toronto, Ontario M2J 4W8, the certificates representing the Dissenting Shoppers Drug Mart Shares or to CIBC Mellon Trust Company c/o Canadian Stock Transfer Company Inc. at P.O. Box 721, Agincourt, Ontario M1S 0A1 or by courier or hand delivery to CIBC Mellon Trust Company c/o Canadian Stock Transfer Company Inc. at 320 Bay Street, Banking Basement Level (B1), Toronto, Ontario M5H 4A6. Dissenting Shoppers Drug Mart Shareholders who fail to send the share certificates representing the Dissenting Shoppers Drug Mart Shares forfeit their right to make a claim under section 190 of the CBCA. Shoppers Drug Mart or CIBC Mellon Trust Company c/o Canadian Stock Transfer Company Inc. will endorse on share certificates received from Dissenting Shoppers Drug Mart Shareholders a notice that the holder is a Dissenting Shoppers Drug Mart Shareholder under section 190 of the CBCA and will forthwith return the share certificates to the Dissenting Shoppers Drug Mart Shareholder.

On the filing of a Demand for Payment (and in any event upon the Effective Date), a Dissenting Shoppers Drug Mart Shareholder ceases to have any rights in respect of its Dissenting Shoppers Drug Mart Shares, other than the right to be paid the fair value of its Dissenting Shoppers Drug Mart Shares as determined pursuant to section 190 of the CBCA and the Interim Order and the Final Order, except where, prior to the date at which the Arrangement becomes effective: (i) the Dissenting Shoppers Drug Mart Shareholder withdraws its Demand for Payment before Shoppers Drug Mart makes an Offer to Pay to the Dissenting Shoppers Drug Mart Shareholder; (ii) an Offer to Pay is not made and the Dissenting Shoppers Drug Mart Shareholder withdraws its Demand for Payment; or (iii) the Shoppers Drug Mart Board revokes the Arrangement Resolution, in which case Shoppers Drug Mart will reinstate the Dissenting Shoppers Drug Mart Shareholder's rights in respect of its Dissenting Shoppers Drug Mart Shares as of the date the

Demand for Payment was sent. Pursuant to the Plan of Arrangement, in no case will Loblaw, Shoppers Drug Mart or any other Person be required to recognize any Dissenting Shoppers Drug Mart Shareholder as a Shoppers Drug Mart Shareholder after the Effective Date, and the names of such Shoppers Drug Mart Shareholders will be deleted from the list of Registered Shareholders at the Effective Date. In addition to any other restrictions under section 190 of the CBCA, none of the following shall be entitled to exercise Dissent Rights: (i) holders of Shoppers Drug Mart Options, Shoppers Drug Mart RSUs or Shoppers Drug Mart DSUs, and (ii) holders of Shoppers Drug Mart Shares who vote or have instructed a proxyholder to vote such Shoppers Drug Mart Shares in favour of the Arrangement Resolution.

No later than 7 days after the later of the Effective Date and the date on which a Demand for Payment of a Dissenting Shoppers Drug Mart Shareholder is received, as applicable, each Dissenting Shoppers Drug Mart Shareholder who has sent a Demand for Payment must be sent a written Offer to Pay for its Dissenting Shoppers Drug Mart Shares in an amount considered by the board of directors of Loblaw to be the fair value thereof, accompanied by a statement showing how the fair value was determined. Every Offer to Pay in respect of Dissenting Shoppers Drug Mart Shares must be on the same terms as every other offer to pay in respect of Dissenting Shoppers Drug Mart Shares.

Payment for the Dissenting Shoppers Drug Mart Shares held by a Dissenting Shoppers Drug Mart Shareholder must be made within 10 days after an Offer to Pay has been accepted by a Dissenting Shoppers Drug Mart Shareholder, but any such Offer to Pay lapses if an acceptance thereof is not received within 30 days after the Offer to Pay has been made. If an Offer to Pay for the Dissenting Shoppers Drug Mart Shares held by a Dissenting Shoppers Drug Mart Shareholder is not made, or if a Dissenting Shoppers Drug Mart Shareholder fails to accept an Offer to Pay that has been made, an application to the Court to fix a fair value for the Dissenting Shoppers Drug Mart Shares held by a Dissenting Shoppers Drug Mart Shareholder may be made within 50 days after the Effective Date or by Loblaw within such further period as a court may allow.

If no such application is made, a Dissenting Shoppers Drug Mart Shareholder may apply to the Court for the same purpose within a further period of 20 days or within such further period as a court may allow. A Dissenting Shoppers Drug Mart Shareholder is not required to give security for costs in such an application.

Upon an application to the Court, all Dissenting Shoppers Drug Mart Shareholders whose Shoppers Drug Mart Shares have not been purchased will be joined as parties and bound by the decision of the Court, and each affected Dissenting Shoppers Drug Mart Shareholder shall be notified of the date, place and consequences of the application and of their right to appear and be heard in person or by counsel. Upon any such application to the Court, the Court may determine whether any other Person is a Dissenting Shoppers Drug Mart Shareholder who should be joined as a party, and the court will then fix a fair value for the Dissenting Shoppers Drug Mart Shares of all such Dissenting Shoppers Drug Mart Shareholders. The final order of the Court will be rendered against Loblaw in favour of each Dissenting Shoppers Drug Mart Shareholder joined as a party and for the amount of the Shoppers Drug Mart Shares held by Dissenting Shoppers Drug Mart Shareholders as fixed by the Court.

The Court may, in its discretion, allow a reasonable rate of interest on the amount payable to each such Dissenting Shoppers Drug Mart Shareholder from the Effective Date until the date of payment. Any judicial determination of fair value will result in delay of receipt by a Dissenting Shoppers Drug Mart Shareholder of consideration for such Dissenting Shoppers Drug Mart Shareholder's Dissenting Shoppers Drug Mart Shares.

The above is only a summary of the provisions of the CBCA pertaining to Dissent Rights, as modified by the Interim Order and the Plan of Arrangement, which are technical and complex. If you are a Shoppers Drug Mart Shareholder and wish to directly or indirectly exercise Dissent

Rights, you should seek your own legal advice as failure to strictly comply with the provisions of the CBCA, as modified by the Interim Order and the Plan of Arrangement, may prejudice your Dissent Rights.

INTERESTS OF INFORMED PEOPLE IN MATERIAL TRANSACTIONS

Other than as disclosed in this Circular or the documents incorporated by reference herein, within the three years prior to the date of this Circular, no informed person of Shoppers Drug Mart or any associate or affiliate of an informed person, has or had any material interest, direct or indirect, in any transaction or any proposed transaction which has materially affected or will materially affect Shoppers Drug Mart or its Subsidiaries.

INTERESTS OF EXPERTS OF SHOPPERS DRUG MART AND LOBLAW

NAME OF EXPERTS

The following persons and companies have prepared certain sections of this Circular and/or Appendices attached hereto as described below, or are named as having prepared or certified a report, statement or opinion in or incorporated by reference in this Circular.

<u>Name of Expert⁽¹⁾</u>	<u>Nature of Relationship</u>
RBC Capital Markets	Authors responsible for the preparation of the RBC Capital Markets Fairness Opinion
Deloitte LLP ⁽²⁾	Auditors of Shoppers Drug Mart
KPMG LLP ⁽³⁾	Auditors of Loblaw
Osler, Hoskin & Harcourt LLP	External Legal Counsel of Shoppers Drug Mart

Notes:

- (1) To the knowledge of Shoppers Drug Mart, none of the experts so named (or any of the designated professionals thereof) held securities representing more than 1% of all issued and outstanding Shoppers Drug Mart Shares as at the date of the statement, report or valuation in question, and none of the persons above is or is expected to be elected, appointed or employed as a director, officer or employee of Shoppers Drug Mart or of any associate or affiliate of Shoppers Drug Mart.
- (2) Deloitte LLP is independent with respect to Shoppers Drug Mart within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Note (1) is not intended to apply to Deloitte LLP.
- (3) KPMG LLP has advised Shoppers Drug Mart that it is independent with respect to Loblaw within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation. Note (1) is not intended to apply to KPMG LLP.

ADDITIONAL INFORMATION

ADDITIONAL INFORMATION

Additional documents, including copies of the most recent Annual Information Form of Shoppers Drug Mart (including any documents incorporated by reference therein), the audited financial statements of

Shoppers Drug Mart for its most recently completed financial year, management’s discussion and analysis and the interim financial statements of Shoppers Drug Mart, are available on SEDAR at www.sedar.com and are also available upon written request at no charge from the Vice President, Legal Affairs & Secretary, Shoppers Drug Mart Corporation, 243 Consumers Road, Toronto, Ontario, Canada, M2J 4W8. Financial information is provided in Shoppers Drug Mart’s comparative financial statements and management’s discussion and analysis for its most recently completed financial year.

DIRECTORS’ APPROVAL

The contents of this Circular and the sending thereof to the shareholders of Shoppers Drug Mart have been approved by the Shoppers Drug Mart Board.

August 12, 2013.

“Adam Grabowski”

Adam Grabowski
Vice President, Legal Affairs & Secretary

CONSENT OF RBC CAPITAL MARKETS

To: The Special Committee of the Board of Directors and the Board of Directors of Shoppers Drug Mart Corporation

We hereby consent to the reference to our firm name and to our engagement letter dated April 29, 2013 under “Summary — Reasons for the Recommendation of the Shoppers Drug Mart Board”, “Summary — RBC Capital Markets Fairness Opinion”, “Questions and Answers About the Meeting and the Arrangement”, “The Arrangement — Background to the Arrangement”, “The Arrangement — Recommendation of the Special Committee”, “The Arrangement — Reasons for the Recommendations”, “The Arrangement — RBC Capital Markets Fairness Opinion”, and “Interests of Experts of Shoppers Drug Mart and Loblaw — Name of Experts” and to the inclusion of the RBC Capital Markets Fairness Opinion as Appendix H to this Circular. In providing such consent, we do not intend that any person other than the Special Committee of the Board of Directors and the Board of Directors of Shoppers Drug Mart Corporation rely upon such opinion.

Toronto, Ontario
August 12, 2013

(signed) RBC Dominion Securities Inc.

APPENDIX A

GLOSSARY OF DEFINED TERMS

“**1933 Act**” means the *United States Securities Act of 1933*, as amended;

“**Acquisition Proposal**” means, other than the transactions contemplated by the Arrangement Agreement and other than any transaction involving only Shoppers Drug Mart and/or one or more of its wholly-owned Subsidiaries or Loblaw and/or one or more of its wholly-owned Subsidiaries, any offer, proposal or inquiry from any Person or group of Persons, whether or not in writing and whether or not delivered to the shareholders of either Shoppers Drug Mart or Loblaw, relating to: (i) any acquisition or purchase, direct or indirect, through one or more transactions, of (A) the assets of either Shoppers Drug Mart or Loblaw and/or one or more of their Subsidiaries that, individually or in the aggregate, constitute 20% or more of the consolidated assets or contribute 20% or more of the consolidated revenue, as applicable, of either Shoppers Drug Mart or Loblaw and their Subsidiaries, taken as a whole or (B) 20% or more of any voting or equity securities of either Shoppers Drug Mart or Loblaw or any one or more of its Subsidiaries that, individually or in the aggregate, constitute 20% or more of the consolidated assets or contribute 20% or more of the consolidated revenue, as applicable, of either Shoppers Drug Mart or Loblaw and its Subsidiaries, taken as a whole; or (ii) a plan of arrangement, merger, amalgamation, consolidation, share exchange, share reclassification, business combination, take-over bid, tender offer, reorganization, recapitalization, liquidation, dissolution or other similar transaction involving either Shoppers Drug Mart and/or any of its Subsidiaries or Loblaw and/or any of its Subsidiaries whose assets or revenues, individually or in the aggregate, constitute 20% or more of the consolidated assets or contribute 20% or more of the consolidated revenue, as applicable, of either Shoppers Drug Mart or Loblaw and their Subsidiaries, taken as a whole; except that for the purpose of the definition of “Superior Proposal”, the references in this definition of “Acquisition Proposal” to “20% or more of any voting or equity securities” shall be deemed to be references to “100% of the voting or equity securities”, and the references to “20% or more of the consolidated assets or contribute 20% or more of the consolidated revenue” shall be deemed to be references to “all or substantially all of the assets”;

“**affiliate**” has the meaning ascribed thereto in NI 45-106;

“**ARC**” means an advance ruling certificate issued under section 102 of the Competition Act;

“**Arrangement**” means the arrangement of Shoppers Drug Mart under section 192 of the CBCA on the terms and subject to the conditions set out in the Plan of Arrangement, subject to any amendments or variations thereto made in accordance with the Arrangement Agreement and the Plan of Arrangement or made at the discretion of the Court in the Final Order (with the consent of each of Shoppers Drug Mart and Loblaw, acting reasonably);

“**Arrangement Agreement**” means the arrangement agreement dated July 14, 2013 between Loblaw and Shoppers Drug Mart, as may be further amended, supplemented and/or restated in accordance therewith prior to the Effective Date, providing for, among other things, the Arrangement;

“**Arrangement Resolution**” means a special resolution of Shoppers Drug Mart in substantially the form of Appendix C to this Circular;

“**Articles of Arrangement**” means the articles of arrangement of Shoppers Drug Mart in respect of the Arrangement that are required by the CBCA to be sent to the Director after the Final Order is made which shall be in form and substance satisfactory to each of Shoppers Drug Mart and Loblaw, acting reasonably;

“**Broadridge**” means Broadridge Investor Communications Solutions, Canada;

“**Business Day**” or “**business day**” means any day, other than a Saturday, a Sunday or a statutory holiday, in the Province of Ontario;

“**Canadian Securities Laws**” means the securities legislation and regulations thereunder of each province and territory of Canada and the rules, instruments, policies and orders of each securities regulator made thereunder;

“**Cash Consideration**” means \$61.54 in cash for each Shoppers Drug Mart Share;

“**CBCA**” means the *Canada Business Corporations Act*, as amended;

“**Certificate**” means the certificate of arrangement giving effect to the Arrangement, issued pursuant to subsection 192(7) of the CBCA after the Articles of Arrangement have been filed;

“**Choice Properties**” means Choice Properties Real Estate Investment Trust;

“**Circular**” means this management proxy circular of Shoppers Drug Mart prepared and sent to Shoppers Drug Mart Shareholders in connection with the Meeting, including the Appendices attached hereof and the documents incorporated by reference herein and together with any amendments thereto or supplements thereof;

“**Combined Company**” means Loblaw after completion of the Arrangement;

“**Commissioner**” means the Commissioner of Competition appointed under the Competition Act and includes a person duly authorized to exercise the powers and to perform the duties of the Commissioner;

“**Competition Act**” means the *Competition Act* (Canada), as amended, and includes the regulations thereunder;

“**Competition Act Approval**” means that one or more of the following shall have occurred: (i) the relevant waiting period in section 123 of the Competition Act shall have expired, there shall be no order issued by the Competition Tribunal under sections 92, 100 or 104 of the Competition Act, and there shall be no agreement with the Commissioner precluding completion of the Arrangement contemplated by the Arrangement Agreement; (ii) the Commissioner shall have issued a letter to Shoppers Drug Mart and Loblaw indicating that he does not, at that time, intend to make an application under section 92 of the Competition Act in respect of the Arrangement contemplated by the Arrangement Agreement; or (iii) the Commissioner shall have issued an ARC in respect of the Arrangement contemplated by the Arrangement Agreement;

“**Competition Tribunal**” means the Competition Tribunal established under the *Competition Tribunal Act*, R.S.C. 1985, c. 19 (2nd Supp.), as amended;

“**Confidentiality Agreement**” has the meaning ascribed to it in “The Arrangement — Background to the Arrangement”;

“**Consideration**” means the consideration to be received by a Shoppers Drug Mart Shareholder pursuant to the Plan of Arrangement for each Shoppers Drug Mart Share, consisting of, at the election of each holder, \$61.54 in cash or 1.29417 Loblaw Shares plus \$0.01 in cash for each Shoppers Drug Mart Share held, subject to pro ration as set out in the Plan of Arrangement;

“**Court**” means the Ontario Superior Court of Justice (Commercial List);

“**CRA**” means the Canada Revenue Agency;

“**Damages Event**” means the occurrence at any time of the following events:

- (a) the Shoppers Drug Mart Board withdrawing, modifying, qualifying or changing any of its recommendations or determinations in a manner adverse to Loblaw or has resolved to do so prior to the Effective Date, or has failed to publicly reconfirm any such recommendation, prior to the earlier of five days following such request by Loblaw or 72 hours prior to the Meeting (unless Loblaw is then in material breach of its obligations hereunder and such withdrawal, modification, qualification or change relates to such breach, or such withdrawal, modification, qualification or change relates to the occurrence of a Material Adverse Effect in respect of Loblaw); or
- (b) a bona fide Acquisition Proposal is publicly announced, proposed, offered or made to the Shoppers Drug Mart Shareholders or any Person shall have publicly announced an intention to make a bona fide Acquisition Proposal in respect of Shoppers Drug Mart and: (i) after such Acquisition Proposal shall have been made known, made or announced, the Shoppers Drug Mart Shareholders do not approve the Arrangement or vote upon the Shoppers Drug Mart Arrangement Resolution; or (ii) this Agreement is terminated by Loblaw pursuant to section 8.1(d) of the Arrangement Agreement, and in the case of either (i) or (ii) such Acquisition Proposal or an amended version thereof relating to Shoppers Drug Mart is consummated or effected as applicable within 12 months of the date the first Acquisition Proposal is publicly announced, proposed, offered or made; and for the purpose of this subsection the references in the definition of “Acquisition Proposal” to “20% or more of any voting or equity securities” shall be deemed to be references to “50% or more of any voting or equity securities”, and the references to “20% or more of the consolidated assets” shall be deemed to be references to “50% or more of the consolidated assets”; or
- (c) Shoppers Drug Mart terminates the Arrangement Agreement pursuant to section 8.1(g) of the Arrangement Agreement;

“**Demand for Payment**” means a written notice containing a Dissenting Shoppers Drug Mart Shareholder’s name and address, the number of Dissenting Shoppers Drug Mart Shares and a demand for payment of the fair value of such Dissenting Shoppers Drug Mart Shares;

“**Depository**” means Equity Financial Trust Company;

“**Director**” means the Director appointed pursuant to section 260 of the CBCA;

“**Dissent Notice**” means a written objection to the Arrangement Resolution provided by a Dissenting Shoppers Drug Mart Shareholders in accordance with the Interim Order and Plan of Arrangement;

“**Dissent Rights**” means the rights of dissent provided for in the Plan of Arrangement;

“**Dissenting Shoppers Drug Mart Shareholder**” means a registered Shoppers Drug Mart Shareholder who dissents in respect of the Arrangement Resolution;

“**Dissenting Shoppers Drug Mart Shares**” has the meaning ascribed to it in “Rights of Dissenting Shoppers Drug Mart Shareholders”;

“**EBITDA**” means earnings before interest, taxes, depreciation and amortization;

“**Effective Date**” means the date of the Certificate;

“**Effective Time**” means 12:01 a.m. (Toronto time) on the Effective Date, or such other time as Shoppers Drug Mart and Loblaw may agree to in writing before the Effective Date;

“**Election Deadline**” means 5:00 p.m. (Toronto time) on the business day which is two (2) business days preceding the Effective Date;

“**Eligible Holder**” means a beneficial holder of Shoppers Drug Mart Shares that is: (i) a resident of Canada for purposes of the ITA and not exempt from tax under Part I of the ITA; or (ii) a partnership, any member of which is a resident of Canada for purposes of the ITA and not exempt from tax under Part I of the ITA;

“**Exchange Act**” means the *United States Securities Exchange Act of 1934*, as amended;

“**Exchange Ratio**” means 1.29417 of a Loblaw Share plus the portion of a Loblaw Share that, immediately prior to the Effective Time, has a fair market value equal to \$0.01 cash;

“**Final Order**” means the order of the Court, in form and substance satisfactory to each of Shoppers Drug Mart and Loblaw, acting reasonably, approving the Arrangement, as such order may be amended by the Court (with the consent of each of Shoppers Drug Mart and Loblaw, acting reasonably) at any time prior to the Effective Date or, if appealed, then unless such appeal is withdrawn or denied, as affirmed or as amended (provided that any such amendment is satisfactory to each of Shoppers Drug Mart and Loblaw, acting reasonably) on appeal;

“**Former Shoppers Drug Mart Shareholders**” means, at and following the Effective Time, the holders of Shoppers Drug Mart Shares immediately prior to the Effective Time;

“**free cash flow**” means cash flows from operating activities less the change in credit card receivables, fixed asset purchases and interest paid;

“**GAAP**” means Canadian generally accepted accounting principles applicable to publicly accountable enterprises which comply with International Financial Reporting Standards;

“**Governmental Entity**” means any: (i) multinational, federal, provincial, territory, state, regional, municipal, local or other government or any governmental or public department, court, tribunal, arbitral body, commission, board, bureau or agency; or (ii) any subdivision, agent, commission, board or authority of any of the foregoing; or (iii) any stock exchange; or (iv) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing;

“**GWL**” means George Weston Limited;

“**Holder**” has the meaning ascribed to it in “Certain Canadian Federal Income Tax Considerations”;

“**Interim Order**” means the interim order, a copy of which is attached as Appendix G, providing for among other things, the calling and holding of the Meeting as it may be amended by the Court with the consent of Shoppers Drug Mart and Loblaw, each acting reasonably;

“**Intermediary**” means a broker, investment dealer or other intermediary through which a Shoppers Drug Mart Shareholder holds its Shoppers Drug Mart Shares;

“**ITA**” means the *Income Tax Act* (Canada), as amended, including the regulations promulgated thereunder, as amended from time to time;

“**Joint Tax Elections**” has the meaning ascribed to it in “The Arrangement — Elections, Pro-Ration and Exchange Procedure — Tax Elections”;

“**Laws**” means all laws, by-laws, statutes, rules, regulations, principles of law, orders, ordinances, protocols, codes, guidelines, policies, notices, directions and judgments or other requirements and the terms and conditions of any grant of approval, permission, authority or license of any Governmental Entity or self-regulatory authority and the term “applicable” with respect to such Laws and in a context that refers to one or more parties, means such Laws as are applicable to such party or its business, undertaking, property or securities and emanate from a Person having jurisdiction over the party or parties or its or their business, undertaking, property or securities; and “Laws” includes Environmental Laws;

“**Letter of Transmittal and Election Form**” means the letter of transmittal and election form enclosed with the Notice of Special Meeting of Shareholders and Management Proxy Circular;

“**Lenders**” means each of Bank of America, N.A., Bank of America, N.A., Canada Branch and Merrill Lynch, Pierce, Fenner & Smith Incorporated and any other person who becomes a lender in respect of the Loblaw Debt Financing pursuant to the Loblaw Commitment Letter;

“**Loblaw**” means the Loblaw Companies Limited;

“**Loblaw Commitment Letter**” means the commitment letter dated July 14, 2013 between Loblaw and the Lenders, including the summaries of terms attached thereto and the fee letter associated therewith;

“**Loblaw Debt Financing**” means the agreement of each of the Lenders to lend, subject to the terms and conditions of the Loblaw Commitment Letter, the amounts set forth therein, the proceeds of which will be used by Loblaw for purposes of financing the aggregate cash component of the Consideration;

“**Loblaw Options**” means options to purchase Loblaw Shares pursuant to the provisions of Loblaw’s equity compensation plans;

“**Loblaw Shareholder Approval**” means the approval of the Loblaw Shareholders by ordinary resolution of the issuance of Loblaw Shares pursuant to the Arrangement, as required by section 611 of the TSX Company Manual, which approval shall be obtained either at a special meeting of the Loblaw Shareholders or through a written consent satisfactory to the TSX;

“**Loblaw Shares**” means the common shares in the capital of Loblaw;

“**Material Adverse Effect**” means, with respect to any person, any fact or state of facts, circumstance, change, effect, occurrence or event which: (i) either individually is or in the aggregate are, or individually or in the aggregate would reasonably be expected to be, material and adverse to the business, operations,

results of operations, properties, assets, liabilities, obligations (whether absolute, accrued, conditional or otherwise) or condition (financial or otherwise) of such person and its Subsidiaries, on a consolidated basis, except to the extent of any fact or state of facts, circumstance, change, effect, occurrence or event resulting from or arising in connection with (a) the announcement of the execution of the Arrangement Agreement or the transactions contemplated therein; or (b) any change in GAAP or changes in applicable regulatory accounting requirements applicable to the industries in which it conducts business; or (c) any change in global, national or regional political conditions (including the outbreak of war or acts of terrorism) or in general economic, business, regulatory, or market conditions or in national or global financial or capital markets; or (d) any change generally affecting the industries in which it conducts business; or (e) any natural disaster; or (f) any actions taken (or omitted to be taken) at the written request of Shoppers Drug Mart or Loblaw; or (g) any action taken by the Person or any of its Subsidiaries that is required pursuant to the Arrangement Agreement (excluding any obligation to act in the ordinary course of business, but including any steps taken pursuant to sections 5.3(a) and 5.8 of the Arrangement Agreement to obtain any required regulatory approvals); provided, however, that with respect to clauses (b), (c), (d) and (e), such matter does not have a materially disproportionate effect on the Person and its Subsidiaries, taken as a whole, relative to comparable entities operating in the industries in which it conducts business, and references in certain sections of the Arrangement Agreement to dollar amounts are not intended to be, and shall not be deemed to be, illustrative or interpretative for purposes of determining whether a “Material Adverse Effect” has occurred; or (ii) either individually or in the aggregate would reasonably be expected to be materially adverse to the ability of the relevant person to consummate the transactions contemplated by the Arrangement Agreement;

“**Maximum Aggregate Cash Consideration**” has the meaning ascribed to it in “Elections, Pro-Ration and Exchange Procedure”;

“**Maximum Aggregate Share Consideration**” has the meaning ascribed to it in “Elections, Pro-Ration and Exchange Procedure”;

“**Meeting**” means the special meeting of the shareholders of Shoppers Drug Mart to be held at the Glenn Gould Studio, CBC Building, 250 Front Street West, Toronto, Ontario, Canada on September 12, 2013 at 11:00 a.m. (Toronto time);

“**NI 45-106**” means National Instrument 45-106 – *Prospectus and Registration Exemptions*;

“**Non-Resident Holder**” has the meaning ascribed to it in “Certain Canadian Federal Income Tax Considerations — Holders Not Resident in Canada”;

“**Notice of Appearance**” has the meaning ascribed to it in “Court Approval and Completion of the Arrangement”;

“**Offer to Pay**” means a written offer to a Dissenting Shoppers Drug Mart Shareholder to pay the fair value for the Dissenting Shoppers Drug Mart Shares;

“**Outside Date**” means February 14, 2014, or such later date as may be agreed to by the Shoppers Drug Mart or Loblaw, provided that the Outside Date: (i) shall automatically be extended if the Competition Act Approval has not been obtained to the tenth business day following the date on which that approval is obtained; or (ii) may be postponed by either Loblaw or Shoppers Drug Mart on no more than two occasions by a period of up to 30 days per occasion if an action, suit or proceeding shall have been taken, commenced or threatened before or by any Governmental Entity (other than in relation to Competition Act Approval) to cease trade, enjoin, prohibit or impose material limitations or conditions on the

Arrangement or which would have such an effect and the party electing to postpone the Outside Date, if that party is a party to such action, suit or proceeding, is diligently contesting it, by giving written notice to the other party to such effect no later than 5:00 p.m. (Toronto time) on the date that is five days prior to the then current Outside Date; provided further, however, in no event shall the Outside Date be extended beyond April 14, 2014;

“**Person**” includes an individual, firm, trust, partnership, association, corporation, joint venture, trustee, executor, administrator, legal representative or government (including any Governmental Entity);

“**Plan of Arrangement**” means the plan of arrangement of Shoppers Drug Mart substantially in the form annexed as Schedule 1.1(a) to the Arrangement Agreement and any amendment or variation thereto made in accordance with section 8.3 of the Arrangement Agreement or the Plan of Arrangement or made at the direction of the Court in the Final Order (in form and substance satisfactory to Shoppers Drug Mart and Loblaw, each acting reasonably);

“**Private Placement**” means the subscription by GWL, concurrent to the Arrangement, for 10,515,247 Loblaw Shares at a price of \$47.55 per share;

“**Proposed Amendments**” means all proposed amendments to the ITA and the regulations thereunder that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this Circular;

“**RBC Capital Markets**” means RBC Dominion Securities Inc., a member company of RBC Capital Markets, the financial advisor to Shoppers Drug Mart;

“**RBC Capital Markets Fairness Opinion**” means the opinion provided by RBC Capital Markets to the effect that as of the date thereof and subject to the assumptions, limitations, qualifications and other matters contained therein, the consideration under the Arrangement is fair, from a financial point of view, to Shoppers Drug Mart Shareholders;

“**Record Date**” means the close of business on August 12, 2013;

“**Registered Shoppers Drug Mart Shareholder**” means a person whose name appears on the register of securities as the owner of Shoppers Drug Mart Shares;

“**Replacement Option**” means an option or right to purchase Loblaw Shares granted by Loblaw in replacement of Shoppers Drug Mart Options on the basis set forth in section 3.1(e) of the Plan of Arrangement;

“**Representatives**” means the officers, directors, employees, financial advisors, legal counsel, accountants and other agents and representatives of either Shoppers Drug Mart or Loblaw;

“**Resident Holder**” means a Holder who, for purposes of the ITA and any applicable income tax convention, is or is deemed to be a resident of Canada at all relevant times;

“**SEC**” means the Securities and Exchange Commission;

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval website at www.sedar.com;

“Share Consideration” means 1.29417 Loblaw Shares plus \$0.01 in cash for each Shoppers Drug Mart Share;

“Shoppers Drug Mart” means Shoppers Drug Mart Corporation;

“Shoppers Drug Mart Board” means the board of directors of Shoppers Drug Mart;

“Shoppers Drug Mart CEO DSU Plan” means Shoppers Drug Mart’s Deferred Share Unit Plan for the Chief Executive Officer dated November 9, 2011;

“Shoppers Drug Mart DSU Plan” means Shoppers Drug Mart’s Deferred Share Unit Plan for Non-Employee Directors as amended and restated effective February 9, 2007 and February 7, 2013;

“Shoppers Drug Mart DSUs” means the deferred share units granted under the Shoppers Drug Mart DSU Plan and the Shoppers Drug Mart CEO DSU Plan;

“Shoppers Drug Mart Options” means the option to purchase Shoppers Drug Mart Shares granted by Shoppers Drug Mart pursuant to the provisions of the Shoppers Drug Mart Share Plans and the Shoppers Drug Mart Predecessor Plans;

“Shoppers Drug Mart Predecessor Plans” means Shoppers Drug Mart’s 2000 Stock Purchase and Option Plans and Shoppers Drug Mart’s 2001 Employee Share Purchase Plan;

“Shoppers Drug Mart RSU Plans” means Shoppers Drug Mart’s Restricted Share Unit Plans dated November 11, 2009, and as amended and restated effective February 9, 2012;

“Shoppers Drug Mart RSUs” means the restricted share units granted under the Shoppers Drug Mart RSU Plans;

“Shoppers Drug Mart Share Awards” means the Shoppers Drug Mart DSUs and Shoppers Drug Mart RSUs;

“Shoppers Drug Mart Shareholder Rights Plan” means Shoppers Drug Mart’s Shareholder Rights Plan dated as of March 31, 2005;

“Shoppers Drug Mart Shareholders” means the holders of Shoppers Drug Mart Shares;

“Shoppers Drug Mart Share Plan” means the Shoppers Drug Mart’s Share Incentive Plans dated November 21, 2001, as amended and restated effective November 4, 2005, November 8, 2006, February 9, 2007 and Shoppers Drug Mart’s Share Incentive Plan as amended and restated effective February 9, 2012;

“Shoppers Drug Mart Shares” means the common shares in the capital of Shoppers Drug Mart;

“SIR” means a supplementary information request pursuant to subsection 114(2) of the Competition Act;

“Special Committee” means the committee of independent directors established by the Shoppers Drug Mart Board to, among other things, review and consider the Arrangement and make recommendations to the Shoppers Drug Mart Board regarding the Arrangement;

“Subject Shares” means the Loblaw Shares that GWL beneficially owns or exercises control or direction over, directly or indirectly and any Loblaw Shares of which GWL acquires beneficial ownership or control or direction over, directly or indirectly;

“Subsidiary” has the meaning ascribed thereto in NI 45-106; provided that, notwithstanding the foregoing, Choice Properties Real Estate Investment Trust and Choice Properties Limited Partnership shall be deemed not to be Subsidiaries of Loblaw;

“Superior Proposal” means a written bona fide Acquisition Proposal made by a third party and in respect of which the Shoppers Drug Mart Board determines in good faith: (i) that the funds or other consideration necessary to complete the Acquisition Proposal are or are reasonably likely to be available to fund completion of the Acquisition Proposal at the time and on the basis set out therein; (ii) that is not subject to a due diligence and/or access condition; (iii) that, after consultation with its financial advisor(s), would or would be reasonably likely to, if consummated in accordance with its terms, result in a transaction that is more favourable to the Shoppers Drug Mart Shareholders from a financial point of view than the Arrangement; (iv) that, after consultation with its financial advisor(s) and outside counsel, is reasonably likely to be consummated at the time and on the terms proposed, taking into account all legal, financial, regulatory and other aspects of such Acquisition Proposal; and (v) after receiving the advice of outside counsel, that failure to recommend such Acquisition Proposal to the Shoppers Drug Mart Shareholders would be inconsistent with its fiduciary duties under applicable Laws;

“Termination Payment” has the meaning ascribed to it in section 7.2 of the Arrangement Agreement;

“Total Elected Cash Consideration” has the meaning ascribed to it in “Elections, Pro-Ration and Exchange Procedure”;

“Total Elected Share Consideration” has the meaning ascribed to it in “Elections, Pro-Ration and Exchange Procedure”;

“TSX” means the Toronto Stock Exchange;

“Unvested Shoppers Drug Mart Share Award” means each Shoppers Drug Mart Share Award other than a Vested Shoppers Drug Mart RSU outstanding at the Effective Time;

“Validly Dissenting Shoppers Drug Mart Shareholder” means a registered holder of Shoppers Drug Mart Shares who dissents in respect of the Arrangement Resolution in strict compliance with the Dissent Rights and who is ultimately entitled to be paid fair value for its Shoppers Drug Mart Shares;

“Vested Shoppers Drug Mart RSU” means each outstanding Shoppers Drug Mart RSU that is vested or will vest in accordance with its terms at the Effective Time; and

“Voting Agreement” means the voting agreement entered into by GWL, Shoppers Drug Mart and Loblaw dated July 14, 2013 in support of the Arrangement.

APPENDIX B

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL
STATEMENTS OF LOBLAW**

**UNAUDITED PRO FORMA CONDENSED COMBINED
STATEMENT OF EARNINGS
For the 52 week year ended December 29, 2012**

	Loblaw Companies Limited (Note 4)	Shoppers Drug Mart Corporation (Note 4)	Pro Forma Adjustments (Note 7)	Pro Forma Combined
	(millions of Canadian dollars, except per share amounts)			
Revenue	\$ 31,604	\$ 10,782	\$ -	\$ 42,386
Cost of Merchandise Inventories Sold	24,185	6,609	-	30,794
Selling, General and Administrative Expenses	6,224	3,294	380 ^{(a), (b), (c), (d)}	9,898
Operating income	1,195	879	(380)	1,694
Net interest expense and other financing charges	351	58	178 ^{(a), (e)}	587
Earnings before Income Taxes	844	821	(558)	1,107
Income taxes	210	214	(148) ^(f)	276
Net Earnings	<u>\$ 634</u>	<u>\$ 607</u>	<u>\$ (410)</u>	<u>\$ 831</u>
Net earnings per common share				
Basic	\$ 2.25	\$ 2.91		\$ 2.02
Diluted	\$ 2.23	\$ 2.91		\$ 2.01
Weighted average common shares outstanding (in millions)				
Basic	281.4	208.4	129.8 ^(t)	411.2
Diluted	283.2	208.5	129.8 ^(t)	413.0

See the accompanying notes to the unaudited pro forma condensed combined financial statements, which are an integral part of these statements.

**UNAUDITED PRO FORMA CONDENSED COMBINED
STATEMENT OF EARNINGS
For the 24 week period ended June 15, 2013**

	Loblaw Companies Limited	Shoppers Drug Mart Corporation	Pro Forma Adjustments (Note 7)	Pro Forma Combined
(millions of Canadian dollars, except per share amounts)				
Revenue	\$ 14,722	\$ 5,024	\$ -	\$ 19,746
Cost of Merchandise Inventories Sold	11,215	3,086	-	14,301
Selling, General and Administrative Expenses	2,876	1,551	170 ^{(a), (b), (c), (d)}	4,597
Operating income	631	387	(170)	848
Net interest expense and other financing charges	156	27	80 ^{(a), (e)}	263
Earnings before Income Taxes	475	360	(250)	585
Income taxes	126	94	(67) ^(f)	153
Net Earnings	<u>\$ 349</u>	<u>\$ 266</u>	<u>\$ (183)</u>	<u>\$ 432</u>
Net earnings per common share				
Basic	\$ 1.24	\$ 1.31		\$ 1.05
Diluted	\$ 1.23	\$ 1.31		\$ 1.04
Weighted average common shares outstanding (in millions)				
Basic	281.1	202.7	129.8 ^(t)	410.9
Diluted	283.6	202.7	130.1 ^(t)	413.7

See the accompanying notes to the unaudited pro forma condensed combined financial statements, which are an integral part of these statements.

**UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET
As at June 15, 2013**

	Loblaw Companies Limited	Shoppers Drug Mart Corporation	Pro Forma Adjustments (Note 7)		Pro Forma Combined
(millions of Canadian dollars)					
Assets					
Current assets					
Cash and cash equivalents	\$ 771	\$ 29	\$ (786)	(r)	\$ 14
Short term investments	847	-	(400)	(s)	447
Accounts receivable	479	451	-		930
Credit card receivables	2,279	-	-		2,279
Inventories	2,011	2,090	250	(g)	4,351
Prepaid expenses and other assets	149	65	-		214
Assets held for sale	26	-	-		26
Total Current Assets	6,562	2,635	(936)		8,261
Fixed Assets	8,937	1,685	54	(h)	10,676
Investment Properties	97	16	-		113
Intangible Assets	115	339	7,751	(i)	8,205
Goodwill	944	2,594	1,564	(j)	5,102
Deferred Income Taxes	260	45	16	(f)	321
Security Deposits	224	-	-		224
Franchise Loans Receivable	365	-	-		365
Other Assets	213	20	-		233
Total assets	\$ 17,717	\$ 7,334	\$ 8,449		\$ 33,500
Liabilities					
Current Liabilities					
Trade payables and other liabilities	\$ 3,482	\$ 1,056	\$ 23	(k)	\$ 4,561
Provisions	54	12	-		66
Income taxes payable	26	15	-		41
Short term debt	905	491	-		1,396
Long term debt within one year	1,125	250	1,590	(l)	2,965
Associate interest	-	162	-		162
Total Current Liabilities	5,592	1,986	1,613		9,191
Provisions	63	4	-		67
Long term Debt	4,386	495	3,463	(l)	8,344
Deferred Income Taxes	19	42	1,844	(f)	1,905
Capital Securities	223	-	-		223
Other Liabilities	743	511	(326)	(m)	928
Total Liabilities	11,026	3,038	6,594		20,658
Shareholders' Equity					
Common Share Capital	1,627	1,401	4,813	(n)	7,841
Retained Earnings	5,001	2,917	(2,999)	(o)	4,919
Contributed Surplus	63	11	8	(p)	82
Accumulated Other Comprehensive (Loss) Income	-	(33)	33	(q)	-
Total Shareholders' Equity	6,691	4,296	1,855		12,842
Total liabilities and shareholders' equity	\$ 17,717	\$ 7,334	\$ 8,449		\$ 33,500

See the accompanying notes to the unaudited pro forma condensed combined financial statements, which are an integral part of these statements.

- (1) Consists of Accounts payable and accrued liabilities and Dividend payable as reported in Shoppers Drug Mart Corporation's unaudited consolidated balance sheet as at June 15, 2013.
- (2) Consists of Bank indebtedness and Commercial paper as reported in Shoppers Drug Mart Corporation's unaudited consolidated balance sheet as at June 15, 2013.
- (3) Consists of Share capital and Treasury shares as reported in Shoppers Drug Mart Corporation's unaudited consolidated balance sheet as at June 15, 2013.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited pro forma condensed combined statements of Loblaw Companies Limited (“Loblaw”) have been prepared to give effect to the definitive agreement entered into by Loblaw to acquire all of the outstanding common shares of Shoppers Drug Mart Corporation (“Shoppers Drug Mart”) (the “Shoppers Acquisition”).

The unaudited pro forma condensed combined statements of earnings for the 52 week year ended December 29, 2012 and for the 24 week period ended June 15, 2013 combine the historical consolidated statements of earnings of Loblaw and Shoppers Drug Mart to give effect to the acquisition as if it had occurred on January 1, 2012. The unaudited pro forma condensed combined balance sheet as at June 15, 2013 combines the historical consolidated balance sheets of Loblaw and Shoppers Drug Mart to give effect to the acquisition as if it had occurred on June 15, 2013.

The unaudited pro forma condensed combined financial statements also reflect the effect of the equity to be issued to Shoppers Drug Mart shareholders and borrowings to be incurred by Loblaw to finance the Shoppers Acquisition.

The unaudited pro forma condensed combined financial statements were based on and should be read in conjunction with the:

- separate audited consolidated financial statements of Loblaw as at and for the 52 week year ended December 29, 2012 and the related notes, included in Loblaw’s 2012 Annual Report;
- separate audited consolidated financial statements of Shoppers Drug Mart as at and for the 52 week year ended December 29, 2012 and the related notes, included in Shoppers Drug Mart 2012 Annual Report;
- separate unaudited interim period condensed consolidated financial statements of Loblaw as at and for the 24 week period ended June 15, 2013 and the related notes, included in Loblaw’s Q2 2013 Quarterly Report; and
- separate unaudited condensed consolidated financial statements of Shoppers Drug Mart as at and for the 24 week period ended June 15, 2013 and the related notes, included in Shoppers Drug Mart Q2 2013 Quarterly Report.

The historical consolidated financial statements have been adjusted to give effect to pro forma events that are (1) directly attributable to the Shoppers Acquisition, (2) factually supportable, and (3) with respect to the statements of earnings, expected to have a continuing impact on the combined results.

The unaudited pro forma condensed combined financial statements have been presented for informational purposes only. The pro forma information is not necessarily indicative of what the combined company’s financial position or financial performance actually would have been had the acquisition been completed as of the dates indicated and does not purport to project the future financial position or operating results of the combined company.

The unaudited pro forma condensed combined financial statements have been prepared using the acquisition method of accounting in accordance with IFRS 3(2008), *Business Combinations* (“IFRS 3R”). The purchase price calculation and purchase price allocation are dependent upon fair value estimates and assumptions as at the acquisition date and therefore, certain valuations are provisional and are subject to change. In addition, there are instances where adequate information is not available to

perform any estimate of fair value as disclosed below. Loblaw will finalize all amounts as it obtains the information necessary to complete the measurement process, which is expected to be no later than one year from the acquisition date. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial statements. Differences between preliminary estimates and final amounts may occur and these differences could be material to the accompanying unaudited pro forma condensed combined financial statements and Loblaw's future financial performance and financial position.

In connection with the Shoppers Acquisition, total acquisition-related transaction costs expected to be incurred by Loblaw and Shoppers Drug Mart are estimated to be approximately \$150 million, and are primarily comprised of \$95 million legal and advisory costs and \$55 million financing costs. The effect of legal and advisory costs to be incurred in connection with the acquisition are not reflected in the unaudited pro forma condensed combined statement of earnings for the 52 week year ended December 29, 2012 as they do not have a continuing impact on the combined operating results; instead, such costs are reflected in the unaudited pro forma condensed combined balance sheet as at June 15, 2013 as a reduction to cash and cash equivalents and retained earnings. Legal and advisory costs will be recognized by Loblaw as selling, general and administrative expenses in the period as they are incurred. Financing costs will be amortized into net earnings as part of net interest expense using the effective interest method over the terms of the applicable loans.

The unaudited pro forma condensed combined financial statements do not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve, the costs to integrate the operations of Loblaw and Shoppers Drug Mart or any costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

2. Description of Transaction

On July 14, 2013, Loblaw and Shoppers Drug Mart entered into a definitive agreement (the "Agreement") pursuant to which and subject to the terms and conditions set forth in the Agreement, Loblaw will acquire all of the issued and outstanding common shares of Shoppers Drug Mart.

The total consideration will consist of cash and Loblaw common shares. Under the terms of the Agreement, Shoppers Drug Mart shareholders can elect to receive \$61.54 in cash or 1.29417 common shares of Loblaw plus \$0.01 in cash for each Shoppers Drug Mart common share held (the "Exchange Ratio"), subject to pro ration as set out in the Agreement. The maximum number of Loblaw Shares that may, in the aggregate, be issued to the Shoppers Drug Mart shareholders shall be equal to the product obtained by multiplying the number of Shoppers Drug Mart shares issued and outstanding immediately prior to the effective time of the acquisition by 0.5965 (the "**Maximum Aggregate Share Consideration**"), which based on the fully diluted number of Shoppers Drug Mart shares outstanding as of the date of the Agreement would be approximately 119.9 million Loblaw Shares. The maximum amount of cash that may, in aggregate, be paid to Shoppers Drug Mart shareholders shall be equal to (a) the product obtained by multiplying the number of Shoppers Drug Mart shares issued and outstanding immediately prior to the effective time of the acquisition by \$33.18, less (b) the product obtained by multiplying the number of Shoppers Drug Mart shares held by dissenting Shoppers Drug Mart shareholders by \$61.54 (the "**Maximum Aggregate Cash Consideration**"), which based on the fully diluted number of Shoppers Drug Mart shares outstanding as of the date of the Agreement would be approximately \$6.67 billion. If the aggregate amount of cash consideration to be paid to the shareholders of Shoppers Drug Mart who have elected or have been deemed to have elected to receive the purchase consideration in cash exceeds the Maximum Aggregate Cash Consideration, the amount in excess of the Maximum Aggregate Cash Consideration would be paid in Loblaw common shares. Similarly, if the aggregate number of shares to be issued to the shareholders of Shoppers Drug Mart who have elected or

have been deemed to have elected to receive the purchase consideration in shares exceeds the Maximum Aggregate Share Consideration, the amount in excess of the Maximum Aggregate Share Consideration will be paid in cash.

Each holder of an outstanding Shoppers Drug Mart restricted share unit (“RSU”) that is vested or will vest at the effective time of the acquisition will receive a cash payment, to be paid by Loblaw at the time of the closing of the Shoppers Acquisition, determined based on the fair market value of a Shoppers Drug Mart common share immediately prior to the effective time of the acquisition. The unvested RSUs and Shoppers Drug Mart deferred share units (“DSU”) (collectively, the Shoppers Drug Mart share-based awards), outstanding at the effective time of the acquisition, will be continued on the same terms and conditions that were applicable immediately prior to the effective time of acquisition except that the terms of the Shoppers Drug Mart share-based award will be amended so as to substitute Loblaw common shares for Shoppers Drug Mart common shares. The number of Loblaw common shares to be received subject to the share-based awards following the acquisition will be determined by multiplying the number of Shoppers Drug Mart common shares underlying the Shoppers Drug Mart share-based awards by the Exchange Ratio.

Each outstanding Shoppers Drug Mart stock option at the effective time of the acquisition will be exchanged for a replacement option to acquire the number of Loblaw common shares equal to the number of Shoppers Drug Mart common shares issuable upon exercise of each Shoppers Drug Mart stock option multiplied by the Exchange Ratio, at an exercise price equal to the quotient determined by dividing the exercise price of the Shoppers Drug Mart stock option by the Exchange Ratio. All terms and conditions of a replacement option, including the terms of expiry, vesting, conditions to and manner of exercising, will be the same as the Shoppers Drug Mart stock option immediately prior to the effective time of the acquisition.

Loblaw will finance the cash element of the acquisition with available cash resources and committed bank facilities. These committed facilities consist of a \$3.5 billion term loan and a \$1.6 billion bridge loan that will be utilized only upon completion of the acquisition. Loblaw plans to replace the bridge loan primarily through the issuance of unsecured notes. As part of the financing of the acquisition, Loblaw’s controlling shareholder, George Weston Limited (“Weston”), has agreed to subscribe for approximately \$500 million of additional Loblaw common shares at a price of \$47.55 per share.

3. Accounting Policies

Upon closing of the Shoppers Acquisition, Loblaw will review, in detail, Shoppers Drug Mart’s accounting policies. As a result of that review, Loblaw may identify differences between the accounting policies of the two companies that, when conformed, could have a material impact on the combined financial results. Based on information available at this time, Loblaw is not aware of any differences that would have a material impact on the post-combination consolidated financial statements, other than those reflected in the unaudited pro forma condensed combined financial statements as described in Note 7.

The accounting policies used in the preparation of the unaudited pro forma condensed combined financial statements are consistent with those described in the unaudited interim period condensed consolidated financial statements of Loblaw for the 24 week period ended June 15, 2013 and the audited consolidated financial statements of Loblaw for the 52 week year ended December 29, 2012.

4. Accounting Standard Implemented in 2013

For purposes of the unaudited pro forma condensed combined financial statements, the consolidated statements of earnings of Loblaw and Shoppers Drug Mart for the 52 week year ended December 29, 2012 have been adjusted to reflect the effect from the retrospective application of the revised IAS 19, *Employee Benefits*, by the companies to their respective financial statements, as disclosed in each company's respective unaudited interim period condensed consolidated financial statements as at and for the 24 week period ended June 15, 2013. Specifically, the following adjustments were recorded in each of the companies' consolidated statements of earnings for the 52 week year ended December 29, 2012:

		Loblaw Companies Limited		Shoppers Drug Mart Corporation
Selling, General and Administrative Expenses	\$	1	\$	3
Net interest expense and other financing charges		20		-
Income taxes		(5)		(1)
Net earnings per common share				
Basic	\$	(0.06)	\$	(0.01)
Diluted	\$	(0.05)	\$	(0.01)

5. Fair Value of Consideration to be Transferred in Connection with the Shoppers Acquisition

The following is a preliminary estimate of the purchase price for the Shoppers Acquisition:

(In millions)		Estimated Preliminary Fair Value
Preliminary fair value estimate of cash consideration to be paid to Shoppers shareholders ^(a)	\$	6,636
Preliminary fair value estimate of share consideration to be paid to Shoppers shareholders ^(a)		5,714
Preliminary fair value estimate of stock options to be issued by Loblaw to replace outstanding Shoppers stock options ^(b)		18
Preliminary fair value estimate of DSUs to be issued by Loblaw to replace outstanding Shoppers DSUs ^(b)		5
	\$	12,373
Less: fair value of converted options and DSUs attributable to post-combination services, which is to be recognized by Loblaw as post-combination expense		5
Estimated purchase price	\$	12,368

- (a) The estimated purchase consideration reflected in these unaudited pro forma condensed combined financial statements does not purport to represent the actual consideration to be transferred upon closing of the Shoppers Acquisition. In accordance with IFRS 3R, the fair value of Loblaw common shares to be issued as part of the consideration transferred will be measured on the closing date of the acquisition at the then-current market price. This requirement will likely result in a purchase price different from the \$12.4 billion assumed in these unaudited pro forma condensed combined financial statements and that difference may be material. A change of \$1 in the Loblaw common share price would

increase or decrease the consideration expected to be transferred by approximately \$119 million, which would be reflected in these unaudited pro forma condensed combined financial statements as an increase or decrease to goodwill.

- (b) In accordance with IFRS 3R, the fair value of the vested portion of Shoppers Drug Mart stock options, unvested RSUs and unvested DSUs that are converted into stock options, RSUs and DSUs to acquire Loblaw shares (hereinafter referred to as the “converted share-based awards”) are recognized as part of purchase accounting. The converted share-based awards that are equity-settled (consisting of stock options and DSUs) are recognized as a component of the purchase price and the converted share-based awards that are cash-settled (consisting of RSUs and DSUs) are recognized as an assumed liability on the acquisition date:

Equity-settled share-based awards

The preliminary fair value estimate of stock options to be issued by Loblaw to replace outstanding Shoppers Drug Mart stock options is \$18 million. This represents a weighted-average fair value of \$16.40 per stock option and has been calculated using the Black-Scholes option pricing model. This calculation considered the closing price of Loblaw common shares of \$47.90 per share as of August 6, 2013, adjusted by the Exchange Ratio, and the following assumptions:

Expected volatility.....	22.09%
Expected life.....	2.92 years
Expected dividend yield.....	2.10 %
Risk-free interest rate.....	1.77%

The amount attributable to the vested portion of Shoppers Drug Mart stock options is estimated to be \$13 million and has been recognized as a component of purchase consideration. The difference between the preliminary fair value of \$18 million and the amount included as a component of purchase consideration will be recognized as a post-combination compensation expense over the vesting period. Of the \$5 million post-combination compensation expense, approximately \$2 million was calculated to be the excess value attributable to vested Shoppers Drug Mart stock options and is recognized as post-combination compensation expense in the unaudited pro forma condensed combined statement of earnings for the 52 week year ended December 29, 2012.

The preliminary fair value estimate of DSUs to be issued by Loblaw to replace outstanding Shoppers Drug Mart DSUs is \$4 million and is determined based on the closing price of Loblaw common share of \$47.90 as of August 6, 2013, adjusted by the Exchange Ratio. The amount attributable to the vested portion of Shoppers Drug Mart DSUs of approximately \$5 million has been recognized as a component of purchase consideration. The difference between the preliminary fair value and the amount included as a component of purchase consideration, representing the excess value attributable to vested Shoppers Drug Mart DSUs, is nominal. The excess value is recognized as post-combination compensation expense in the unaudited pro forma condensed combined statement of earnings for the 52 week year ended December 29, 2012.

Cash-settled share-based awards

The unvested Shoppers Drug Mart cash-settled RSUs and DSUs, outstanding as of the acquisition date, will be converted into RSUs and DSUs to receive cash payment by reference to Loblaw shares. Those liabilities have been adjusted to reflect the fair value of the converted share-based awards based on the closing price of Loblaw common share of \$47.90 as of August 6, 2013, adjusted by the Exchange Ratio. Those liabilities are included in the assumed liabilities as disclosed in Note 6. *Assets Acquired and Liabilities Assumed in Connection with the Shoppers Acquisition.*

Upon closing of the acquisition, Loblaw will recalculate the fair value of Shoppers Drug Mart options, unvested RSUs and unvested DSUs and the converted share-based awards as of the effective time of the acquisition, in accordance with IFRS 2, *Share-based Payments*, and will record the amount of the fair value of the equity-settled converted share-based awards as a component of purchase price and the fair value of the cash-settled converted share-based awards as an assumed liability on the acquisition date. The fair value of the converted share-based awards in excess of the fair value of Shoppers Drug Mart options, unvested RSUs and unvested DSUs, if any, will be recognized as post-combination compensation expense over the vesting period.

6. Assets Acquired and Liabilities Assumed in Connection with the Shoppers Acquisition

The following is a preliminary fair value estimate of the assets to be acquired and the liabilities to be assumed by Loblaw in connection with the Shoppers Acquisition, reconciled to the estimated purchase price:

(millions of Canadian dollars)	
Cash and cash equivalents (k)	\$ 29
Accounts receivable (k)	451
Inventories (a)	2,340
Prepaid expenses and other assets (k)	65
Fixed assets (b)	1,739
Investment properties (c)	16
Intangible assets (d)	8,090
Deferred tax assets (h)	31
Other assets (k)	20
Trade payables and other liabilities (e), (k)	(1,078)
Income taxes payable (k)	(15)
Provisions (f)	(16)
Short term debt (k)	(491)
Associate interest (k)	(162)
Long term debt (g)	(753)
Deferred tax liabilities (h)	(1,871)
Other liabilities (e), (i), (k)	(185)
Total identifiable net assets acquired	\$ 8,210
Goodwill (j)	4,158
Estimated purchase price	\$ 12,368

- (a) A preliminary fair value estimate of \$2,340 million has been allocated to inventories acquired. The fair value of inventories is estimated based on the retail value less the sum of costs of disposal and a reasonable profit allowance for the selling effort of a market participant. For purposes of these unaudited pro forma condensed combined financial statements, Loblaw has estimated the preliminary fair value by using historical financial information from Shoppers Drug Mart, including selling costs and profit margins on selling efforts. At this time, Loblaw does not have enough information (including location, type, volume, and related costs specific to the completion of the inventory sale process) to conduct a detailed valuation of the inventory. As a result, this estimate is preliminary, subject to change and could vary materially from the fair value estimate which will be determined by Loblaw as of the acquisition date. Upon closing of the acquisition, Loblaw will conduct a detailed valuation of the inventories acquired as of the acquisition date.
- (b) A preliminary fair value estimate of \$1,739 million has been allocated to fixed assets acquired, primarily consisting of distribution centre land, building and equipment, store fixtures and equipment, and owned store properties. Loblaw does not have complete information at this time as to the age, condition or location of these assets. All of these elements can result in differences between the preliminary fair value estimate and the fair value determined at the acquisition date. For purposes of these unaudited pro forma condensed combined financial statements, Loblaw has estimated the preliminary fair value based on summary depreciated replacement cost information for Shoppers Drug Mart's store fixtures and equipment. For the remaining assets, Loblaw does not have sufficient

information to develop a preliminary estimate of fair value. Accordingly, for purposes of these unaudited pro forma condensed combined financial statements, the net carrying values for the remaining assets are assumed to approximate fair value. As a result, this estimate is preliminary and subject to change. The preliminary estimates of fair value and weighted-average useful life could vary materially from the fair value estimate determined by Loblaw as of the acquisition date.

The preliminary fair value estimate of the fixed assets and the estimated useful lives are as follows:

(millions of Canadian dollars)	Estimated preliminary fair value	Average estimated useful life
Estimated fair value adjustments		
Leasehold improvements	\$ 36	10 years
Equipment, fixtures and computer equipment	18	4 years
	54	
Shoppers Drug Mart net carrying values of fixed assets	1,685	
Total fixed assets	\$ 1,739	

- (c) A preliminary fair value estimate of \$16 million has been allocated to investment properties acquired, primarily consisting of land and buildings. Loblaw does not have complete information at this time as to the age, condition or location of these assets. For purposes of these unaudited pro forma condensed combined financial statements, Loblaw has estimated the preliminary fair value based on the carrying value reported in the June 15, 2013 unaudited interim condensed consolidated financial statements of Shoppers Drug Mart.
- (d) A preliminary fair value estimate of \$8,090 million has been allocated to identifiable intangible assets acquired, primarily consisting of prescription files, banners, Optimum loyalty program, control brands, technology and other. At this time, Loblaw does not have complete information (including the amount, timing and risks associated with the projected future cash flows) necessary to conduct a detailed valuation of the identifiable intangible assets. For purposes of these unaudited pro forma condensed combined financial statements, the preliminary estimates of fair value and weighted-average useful life are determined based on Loblaw's limited knowledge of Shoppers Drug Mart's operations and by reference to comparable acquisition transactions in the retail sector. These preliminary fair value estimates and weighted-average useful lives could be different from the final valuation results and the difference could be material. The preliminary fair value estimates of the identifiable intangible assets and their weighted-average useful lives are estimated as follows:

(millions of Canadian dollars)	Estimated preliminary fair value	Average estimated useful life
Prescription files	\$ 3,970	12 years
Banners ⁽ⁱ⁾	2,905	N/A
Optimum loyalty program	660	12 years
Control brands ⁽ⁱ⁾	310	N/A
Technology	185	5 years
Other	60	12 years
Total⁽ⁱⁱ⁾	\$ 8,090	

- (i) Banners and control brands have been preliminarily classified as indefinite-lived assets. At this time, Loblaw does not have sufficient information to complete a detailed analysis for each banner and control brand of Shoppers Drug Mart. Instead, the valuation analyses for banner and control brands have been

completed on a consolidated basis based on Loblaw's limited knowledge of Shoppers Drug Mart's operations and by reference to comparable acquisition transactions in the retail sector. Accordingly, upon closing of the acquisition, certain banners and control brands will likely be assessed as definite-lived assets as Loblaw completes the final acquisition accounting. Intangible assets that are classified as indefinite-lived assets will not be amortized into earnings; instead these assets will be subject to impairment testing at least annually or more frequently if events and circumstances in the intervening period provide an indicator that impairment may exist.

- (ii) Loblaw does not have sufficient information as to the terms of Shoppers Drug Mart's operating leases to estimate the fair value of any potential favourable or unfavourable lease intangible assets or liabilities. The fair value of the favourable or unfavourable operating lease intangible assets or liabilities is measured relative to market terms of similar leases. Loblaw will conduct a valuation of Shoppers' operating leases as of the acquisition date following the completion of the acquisition. The fair value estimate will be amortized into earnings over the term of the respective leases by Loblaw in the post-combination period.
- (e) Liabilities for the vested portion of the Shoppers Drug Mart's cash-settled RSUs and DSUs have been adjusted by \$14 million and \$2 million to the estimated acquisition-date fair value of \$22 million and \$8 million, respectively. The difference between the fair value of the cash-settled converted share-based awards and the fair value of the Shoppers Drug Mart's cash-settled RSUs and DSUs is \$1 million and the excess is recognized as post-combination compensation expense in the unaudited pro forma condensed combined statement of earnings for the 52 week year ended December 29, 2012 as described in Note 5(b).
- (f) For purposes of the unaudited condensed combined pro forma financial statements, the carrying value of the provisions recorded in Shoppers Drug Mart's June 15, 2013 consolidated balance sheet is assumed to approximate fair value. Loblaw does not, at this time, have sufficient information as to the amount, timing and risk of potential losses relating to the provisions and contingent liabilities which existed as of June 15, 2013 to reliably measure a preliminary estimate of the fair value of those provisions and contingent liabilities. Loblaw will conduct a valuation of the provisions and contingent liabilities existing as of the acquisition date following the completion of the acquisition.
- (g) A preliminary fair value estimate of \$753 million has been allocated to long term debt. The fair value is estimated by discounting the associated future cash flows using current market rates for instruments of similar risk. Upon closing of the acquisition, Loblaw will determine the fair value of the assumed long term debt based on the then-current market rates for such instruments.
- (h) Represents the net deferred income tax liability, based on the statutory tax rates of the relevant jurisdictions, relating to the estimated fair value adjustments to assets acquired and liabilities assumed.

(millions of Canadian dollars)	Estimated preliminary fair value
Deferred income tax impact due to:	
Estimated preliminary fair value adjustment to inventories to be acquired	\$ (67)
Estimated preliminary fair value adjustment to fixed assets	(14)
Estimated preliminary fair value adjustment to intangible assets	(1,702)
Estimated preliminary fair value adjustment to deferred rent and other liabilities	(82)
Estimated preliminary fair value adjustment to long term debt	2
Other	20
Estimated adjustments to deferred income taxes	(1,843)

Shoppers Drug Mart's historical deferred tax assets, net		3
Estimated deferred income tax liabilities, net	\$	(1,840)
Deferred income tax assets	\$	31
Deferred income tax liabilities		(1,871)
Estimated deferred income tax liabilities, net	\$	(1,840)

For purposes of these unaudited pro forma condensed combined financial statements, no adjustment has been made to the balance of unrecognized tax benefits, which is based on Loblaw's preliminary assessment and is subject to change. The effective tax rate of the combined company could be significantly different than the statutory tax rates used for the purposes of preparing the pro forma condensed combined financial statements for a variety of factors, including post-combination activities.

- (i) Other liabilities have been adjusted to eliminate the deferred rent balance of \$320 million as it has a fair value of nil as of the acquisition date.
- (j) Goodwill is calculated as the excess of the preliminary estimate of the acquisition-date fair value of the consideration transferred over the preliminary estimate of the fair values assigned to the identifiable assets acquired and liabilities assumed. Goodwill is not deductible for tax purposes. Goodwill will be subject to impairment testing at least annually and more frequently if events and circumstances in the intervening period provide an indicator that impairment may exist.
- (k) For purposes of these unaudited pro forma condensed combined financial statements, the carrying values for all other assets and liabilities that are not discussed above are assumed to approximate fair value based on the nature of the assets and liabilities. Upon closing of the acquisition, Loblaw will conduct a detailed valuation of those assets and liabilities as of the acquisition date.

7. Pro Forma Adjustments in Connection with the Shoppers Acquisition

This note should be read in conjunction with Note 1. *Basis of Presentation*; Note 2. *Description of Transaction*; Note 5. *Fair Value of Consideration to be Transferred in Connection with the Shoppers Acquisition*; and Note 6. *Assets Acquired and Liabilities Assumed in Connection with the Shoppers Acquisition*. The following summarizes the pro forma adjustments in connection with the Shoppers Acquisition to give effect to the acquisition as if it had occurred on January 1, 2012 for purposes of the pro forma condensed combined statements of earnings and on June 15, 2013 for purposes of the pro forma condensed combined balance sheet:

- (a) To reclassify net interest cost recorded by Shoppers Drug Mart relating to its pension and post-retirement benefit plans from Selling, General and Administrative Expenses to Net interest expense and other financing charges to conform to the financial statement presentation adopted by Loblaw as follows:

(millions of Canadian dollars)	For the 52 week year ended December 29, 2012	For the 24 week period ended June 15, 2013
Selling, General and Administrative Expenses	\$ (2)	\$ (1)
Operating income	2	1
Net interest expense and other financing charges	2	1
Earnings before Income Taxes	\$ -	\$ -

- (b) To adjust amortization of intangible assets as follows:

(millions of Canadian dollars)	For the 52 week year ended December 29, 2012	For the 24 week period ended June 15, 2013
Eliminate Shoppers Drug Mart's historical intangible asset amortization expense	\$ (56)	\$ (30)
Estimated amortization expense of acquired finite-lived intangible assets:		
Prescription files	331	153
Optimum loyalty program	55	25
Technology	37	17
Other	5	2
Total	\$ 372	\$ 167

- (c) To adjust depreciation expense as follows:

(millions of Canadian dollars)	For the 52 week year ended December 29, 2012	For the 24 week period ended June 15, 2013
Estimated depreciation of fair value adjustments:		
Leasehold improvements	\$ 4	\$ 2
Equipment, fixtures and computer equipment	4	2
Total	\$ 8	\$ 4

- (d) To adjust share-based compensation expense related to the equity-settled converted share-based awards as follows:

(millions of Canadian dollars)	For the 52 week year ended December 29, 2012	For the 24 week period ended June 15, 2013
Eliminate Shoppers Drug Mart's historical equity-settled share-based compensation expense	\$ (1)	\$ (1)
Estimated share-based compensation expense relating to equity-settled converted share-based awards	3	1
Total	\$ 2	\$ -

- (e) To record additional interest expense related to the \$3.5 billion term loan and the \$1.6 billion bridge loan facility obtained by Loblaw to finance the cash element of the Shoppers Acquisition:

(i) \$3.5 billion term loan

The \$3.5 billion term loan (the “term loan”) will bear interest at a rate equal to the Bankers’ Acceptance (“BA”) rate plus 1.75%. The term loan is expected to have a maturity of 5 years and will be drawn upon closing of the Shoppers Acquisition. The term loan will be payable in equal quarterly amounts at a rate of 10% per annum with the remaining balance due at maturity. Approximately \$45 million of debt issuance costs are expected to be incurred in connection with the term loan and will be recognized as part of the carrying value and amortized using the effective interest method. For purposes of the unaudited pro forma condensed combined financial statements, the term loan has been assumed to have an interest rate of 2.95% (equal to the BA rate of 1.20% plus 1.75%) with an effective interest rate estimated to be 3.24%.

(ii) \$1.6 billion bridge loan facility.

The \$1.6 billion bridge loan facility (the “bridge loan”) will initially bear interest at a rate equal to BA rate plus 1.75%. The interest rate will escalate by 25 basis points each quarter. The bridge loan has a 364-day term and can be extended for an additional six months if certain conditions are satisfied. A commitment fee of approximately \$10 million is expected to be incurred in connection with the bridge loan. For purposes of the unaudited pro forma condensed combined financial statements, it is assumed that Loblaw will utilize the bridge loan with an assumed initial interest rate of 2.95% and an estimated effective interest rate of 3.96%. It is further assumed that Loblaw will refinance the bridge loan at the end of the 364-day term and replace it with a loan with aggregate principal balance of \$1.6 billion that will bear interest equal to a rate that is the same as the bridge loan at the time, which is expected to be 3.70%.

Loblaw plans to replace the bridge loan primarily through issuance of unsecured notes. Accordingly, the actual interest expense will be different than the amount assumed in these unaudited pro forma condensed combined financial statements and the difference could be material.

- (f) To record tax effect on the pro forma adjustments, using a statutory tax rate of 27%. The effective tax rate of the combined company could be significantly different than the statutory tax rate assumed for purposes of preparing the unaudited pro forma condensed combined financial statements as a result of a variety of factors, including post-acquisition activities.

(g) To adjust acquired inventories to a preliminary estimate of fair value. The post-combination cost of merchandise inventories sold will reflect the increased valuation of Shoppers Drug Mart's inventories as the acquired inventories are sold, which is expected to occur within the first year following the Shoppers Acquisition. There is no continuing impact of the acquired inventories fair value adjustment on the combined operating results, and as such, it is not included in the unaudited pro forma condensed combined statement of earnings for the 52 week year ended December 29, 2012.

(h) To adjust fixed assets to a preliminary estimate of fair value as follows:

(millions of Canadian dollars)	
Eliminate Shoppers Drug Mart's historical fixed assets	\$ (1,685)
Preliminary fair value of acquired fixed assets	1,739
Total	\$ 54

(i) To adjust intangible assets to a preliminary estimate of fair value as follows:

(millions of Canadian dollars)	
Eliminate Shoppers Drug Mart's historical intangible assets	\$ (339)
Preliminary fair value of identifiable intangible assets	8,090
Total	\$ 7,751

(j) To reverse Shoppers Drug Mart's historical goodwill and record a preliminary estimate of goodwill related to the Shoppers Acquisition as follows:

(millions of Canadian dollars)	
Eliminate Shoppers Drug Mart's historical goodwill	\$ (2,594)
Estimated acquisition-related goodwill	4,158
Total	\$ 1,564

(k) To adjust Shoppers Drug Mart cash-settled share-based awards, which will be converted to Loblaw share-based awards, to a preliminary estimate of fair value.

(l) To adjust Shoppers Drug Mart's existing debt to an estimate of fair value, to record the term and the bridge loan to be incurred by Loblaw in connection with the Shoppers Acquisition, as follows:

(millions of Canadian dollars)	
Preliminary fair value adjustment related to assumed debt	\$ 8
Issuance of term loan (Note 7(e))	3,500
Issuance of bridge loan (note 7(e))	1,600
Transaction costs relating to the issuance of the term loan and the bridge loan (Note 7(e))	(55)
Total	\$ 5,053
Adjustment to Long term debt due within one year	\$ 1,590
Adjustment to Long term debt	3,463
	\$ 5,053

- (m) To reverse Shoppers Drug Mart's historical deferred rent balance and to adjust Shoppers Drug Mart's liability for cash-settled share-based awards as follows:

(millions of Canadian dollars)	
Eliminate Shoppers Drug Mart's historical deferred rent balance	\$ (320)
Adjust Shoppers Drug Mart's liability for cash-settled share-based awards	14
Reclassify current portion of the liability for cash-settled share-based awards to trade payables and other liabilities	(20)
Total	\$ (326)

- (n) To eliminate Shoppers Drug Mart's common share capital, to record the subscription of Loblaw common shares by Weston and to record the issuance of common shares to Shoppers Drug Mart shareholders as follows:

(millions of Canadian dollars)	
Eliminate Shoppers Drug Mart's common share capital	\$ (1,401)
Issuance of Loblaw common shares to Weston (Note 2)	500
Issuance of Loblaw common shares to Shoppers Drug Mart shareholders (Note 5)	5,714
Total	\$ 4,813

- (o) To eliminate Shoppers Drug Mart's retained earnings, to record post-combination expense relating to converted share-based awards issued as part of the Shoppers Acquisition, and to record estimated acquisition-related transaction costs to be incurred by Loblaw and Shoppers Drug Mart in connection with the Shoppers Acquisition as follows:

(millions of Canadian dollars)	
Eliminate Shoppers Drug Mart's retained earnings	\$ (2,917)
Record post-combination expense relating to converted share-based awards (Note 5(b))	(2)
Estimated acquisition-related transaction costs to be incurred in connection with the Shoppers Acquisition (Note 1)	(95)
Estimated tax effect on acquisition-related transaction costs	15
Total	\$ (2,999)

- (p) To eliminate Shoppers Drug Mart's contributed surplus, to record converted share-based awards and post-combination expense relating to converted share-based awards as follows:

(millions of Canadian dollars)	
Eliminate Shoppers Drug Mart's contributed surplus	\$ (11)
Record converted share-based awards	18
Record post-combination expense relating to converted share-based awards	1
Total	\$ 8

- (q) To eliminate Shoppers Drug Mart's accumulated other comprehensive loss.

- (r) To record the estimated cash impact of the Shoppers Acquisition, financing and acquisition-related transaction costs as follows:

(millions of Canadian dollars)		
Cash consideration paid to Shoppers Drug Mart's shareholders (Note 5)	\$	(6,636)
Net proceeds from issuance of Loblaw common shares to Weston (Note 2)		500
Net proceeds from issuance of the \$3.5 billion term loan (Note 7(e)(i))		3,455
Net proceeds from drawing of the \$1.6 billion bridge loan facility (Note 7(e)(ii))		1,590
Proceeds from sale of short term investments (Note 7(s))		400
Estimated acquisition-related transaction costs to be incurred in connection with the Shoppers Acquisition (Note 1)		(95)
Total	\$	(786)

- (s) Based on Loblaw's and Shoppers Drug Mart's cash on hand as of June 15, 2013, there would be a cash shortfall of approximately \$390 million had the Shoppers Acquisition and the planned financing transactions taken place on June 15, 2013. For purposes of the pro forma financial statements, it is assumed that Loblaw will obtain the required cash by monetizing its short term investments.
- (t) The unaudited pro forma combined basic and diluted earnings per share for the periods presented have been adjusted by the common shares expected to be issued by Loblaw in connection with the Shoppers Acquisition.

(in millions)	For the 52 week year ended December 29, 2012	For the 24 week year ended June 15, 2013
Basic weighted average Loblaw common shares outstanding (as reported)	281.4	281.1
Adjusted for:		
Issuance of Loblaw common shares to Weston	10.5	10.5
Issuance of Loblaw common shares to Shoppers Drug Mart shareholders	119.3	119.3
	129.8	129.8
Basic weighted average Loblaw common shares outstanding (pro forma)	411.2	410.9
Diluted weighted average Loblaw common shares outstanding (as reported)	283.2	283.6
Adjusted for:		
Issuance of Loblaw common shares to Weston	10.5	10.5
Issuance of Loblaw common shares to Shoppers Drug Mart shareholders	119.3	119.3
Dilutive effect from converted share-based awards	-	0.3
	129.8	130.1
Diluted weighted average Loblaw common shares outstanding (pro forma)	413.0	413.7

APPENDIX C

FORM OF SHOPPERS DRUG MART ARRANGEMENT RESOLUTION

BE IT RESOLVED THAT:

1. The arrangement (the “**Arrangement**”) under section 192 of the *Canada Business Corporations Act* (the “**CBCA**”) of Shoppers Drug Mart Corporation (the “**Corporation**”), as more particularly described and set forth in the management proxy circular (the “**Circular**”) dated August 12, 2013 of the Corporation accompanying the notice of this meeting and as it may be amended, modified or supplemented in accordance with the arrangement agreement dated July 14, 2013 between the Corporation and Loblaw Companies Limited (as it may be amended, modified or supplemented, the “**Arrangement Agreement**”), is hereby authorized, approved and adopted.
2. The plan of arrangement of the Corporation (the “**Plan of Arrangement**”), as it may be amended, modified or supplemented in accordance with its terms and the Arrangement Agreement, the full text of which is set out in Appendix E to the Circular, is hereby authorized, approved and adopted.
3. The (i) Arrangement Agreement and transactions contemplated thereby, (ii) actions of the directors of the Corporation in approving the Arrangement Agreement, and (iii) actions of the directors and officers of the Corporation in executing and delivering the Arrangement Agreement, and any amendments, modifications or supplements thereto, are hereby ratified, authorized and approved.
4. The Corporation is hereby authorized to apply for a final order from the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) to approve the Arrangement on the terms set forth in the Arrangement Agreement and the Plan of Arrangement.
5. Notwithstanding that this resolution has been passed by the holders of common shares of the Corporation (the “**Shareholders**”) or that the Arrangement has been approved by the Court, the directors of the Corporation are hereby authorized and empowered to, without further notice to or approval of the Shareholders: (i) amend, modify or supplement the Arrangement Agreement or the Plan of Arrangement, to the extent permitted thereby; and (ii) subject to the terms of the Arrangement Agreement, not proceed with the Arrangement and related transactions.
6. Any officer or director of the Corporation is hereby authorized and directed for and on behalf of the Corporation to execute, under the corporate seal of the Corporation or otherwise, and to deliver or cause to be delivered, for filing with the Director under the CBCA articles of arrangement and such other documents as are necessary or desirable to give effect to the Arrangement and the Plan of Arrangement and transactions contemplated thereby in accordance with the Arrangement Agreement, such determination to be conclusively evidenced by the execution and delivery of such articles of arrangement and such other documents.
7. Any officer or director of the Corporation is hereby authorized and directed for and on behalf of the Corporation to execute or cause to be executed, under the corporate seal of the Corporation or otherwise, and to deliver or cause to be delivered all such other documents and instruments and to perform or cause to be performed all such other acts and things as such person determines may be necessary or desirable to give full effect to the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document or instrument or the doing of any such act or thing.

APPENDIX D
ARRANGEMENT AGREEMENT

ARRANGEMENT AGREEMENT

Between

LOBLAW COMPANIES LIMITED

and

SHOPPERS DRUG MART CORPORATION

July 14, 2013

TABLE OF CONTENTS

Page

ARTICLE I

INTERPRETATION.....	1
1.1 Definitions.....	1
1.2 Interpretation Not Affected by Headings.....	8
1.3 Article References.....	8
1.4 Number and Gender.....	9
1.5 Date for Any Action.....	9
1.6 Currency.....	9
1.7 Schedules.....	9
1.8 Accounting Matters.....	9
1.9 Knowledge.....	9
1.10 Other Definitional and Interpretive Provisions.....	9

ARTICLE II

THE ARRANGEMENT	10
2.1 The Arrangement.....	10
2.2 Loblaw Approval.....	10
2.3 Shoppers Drug Mart Approval.....	10
2.4 Obligations of Loblaw.....	11
2.5 Obligations of Shoppers Drug Mart.....	11
2.6 Interim Order.....	11
2.7 Court Proceedings.....	12
2.8 Shoppers Drug Mart Circular.....	13
2.9 Conduct of the Shoppers Drug Mart Shareholders' Meeting.....	14
2.10 Shoppers Drug Mart Shareholder Rights Plan.....	15
2.11 Effective Date.....	15
2.12 Payment of Consideration.....	15
2.13 Board of Directors of Loblaw.....	15
2.14 Shareholder Communications.....	15

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF LOBLAW	16
3.1 Representations and Warranties.....	16
3.2 Investigation.....	16
3.3 Survival of Representations and Warranties.....	16

TABLE OF CONTENTS

(continued)

Page

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SHOPPERS DRUG MART 16

4.1	Representations and Warranties	16
4.2	Investigation.....	17
4.3	Survival of Representations and Warranties	17

ARTICLE V

COVENANTS..... 17

5.1	Conduct of Business by Shoppers Drug Mart.....	17
5.2	Conduct of Business by Loblaw	20
5.3	Mutual Covenants	22
5.4	Supplemental Listing Application	23
5.5	Pre-Arrangement Reorganizations	23
5.6	Financing Arrangements	24
5.7	Financing Assistance	25
5.8	Competition Act Matters.....	26
5.9	Proxies Received, Dissent Notices and Securityholder Lists.....	28
5.10	Equity-Based Compensation Plans	28
5.11	Section 85 Elections.....	30
5.12	Coordination of Dividends.....	30

ARTICLE VI

CONDITIONS 30

6.1	Mutual Conditions	30
6.2	Loblaw Conditions.....	31
6.3	Shoppers Drug Mart Conditions	32
6.4	Notice and Cure Provisions.....	32
6.5	Merger of Conditions	33

ARTICLE VII

ADDITIONAL AGREEMENTS..... 33

7.1	Covenant Regarding Non-Solicitation	33
7.2	Agreement as to Damages.....	36
7.3	Liquidated Damages	37
7.4	Fees and Expenses	38
7.5	Access to Information; Confidentiality.....	38
7.6	Insurance and Indemnification.....	39
7.7	Financial Advisors	39

TABLE OF CONTENTS

(continued)

Page

ARTICLE VIII

TERM, TERMINATION, AMENDMENT AND WAIVER	40
8.1 Termination.....	40
8.2 Effect of Termination.....	41
8.3 Amendment.....	41
8.4 Waiver.....	41

ARTICLE IX

GENERAL PROVISIONS	41
9.1 Notices	41
9.2 Entire Agreement; Binding Effect	42
9.3 Assignment	42
9.4 Time of Essence.....	42
9.5 Further Assurances.....	43
9.6 Specific Performance	43
9.7 Third Party Beneficiaries	43
9.8 Governing Law	43
9.9 Attornment	43
9.10 Severability	44
9.11 Counterparts.....	44

ARRANGEMENT AGREEMENT

THIS ARRANGEMENT AGREEMENT is dated July 14, 2013 between:

LOBLAW COMPANIES LIMITED, a corporation existing under the laws of Canada with its head office in the City of Brampton, in the Province of Ontario (“**Loblaw**”)

- and -

SHOPPERS DRUG MART CORPORATION, a corporation existing under the laws of Canada with its head office in the City of Toronto, in the Province of Ontario (“**Shoppers Drug Mart**”)

WHEREAS the board of directors of each of Loblaw and Shoppers Drug Mart has determined that it would be in the best interests of its corporation to combine the businesses conducted by Loblaw and Shoppers Drug Mart;

AND WHEREAS to effect this combination, Loblaw proposes to acquire all of the issued and outstanding common shares of Shoppers Drug Mart by way of a plan of arrangement under the provisions of the *Canada Business Corporations Act*;

AND WHEREAS upon the effectiveness of the Arrangement, common shareholders of Shoppers Drug Mart will receive, at the election of each holder, \$61.54 in cash or 1.29417 common shares of Loblaw plus \$0.01 in cash for each Shoppers Drug Mart common share held, subject to pro ration as set out in the Plan of Arrangement;

AND WHEREAS the parties hereto have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters related to the transaction herein provided for;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT IN CONSIDERATION of the covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto covenant and agree as follows:

ARTICLE I INTERPRETATION

1.1 Definitions

In this Agreement, unless the context otherwise requires:

“**Acquisition Proposal**” means, other than the transactions contemplated by this Agreement and other than any transaction involving only a Party and/or one or more of its wholly-owned Subsidiaries, any offer, proposal or inquiry from any Person or group of Persons, whether or not in writing and whether or not delivered to the shareholders of a Party, relating to: (i) any acquisition or purchase, direct or indirect, through one or more transactions, of (A) the assets of that Party and/or one or more of its Subsidiaries that, individually or in the aggregate, constitute 20% or more of the consolidated assets or contribute 20% or more of the consolidated revenue, as applicable, of such Party and its Subsidiaries, taken as a whole or (B) 20% or more of any voting or equity securities of

that Party or any one or more of its Subsidiaries that, individually or in the aggregate, constitute 20% or more of the consolidated assets or contribute 20% or more of the consolidated revenue, as applicable, of such Party and its Subsidiaries, taken as a whole; or (ii) a plan of arrangement, merger, amalgamation, consolidation, share exchange, share reclassification, business combination, take-over bid, tender offer, reorganization, recapitalization, liquidation, dissolution or other similar transaction involving that Party and/or any of its Subsidiaries whose assets or revenues, individually or in the aggregate, constitute 20% or more of the consolidated assets or contribute 20% or more of the consolidated revenue, as applicable, of such Party and its Subsidiaries, taken as a whole; except that for the purpose of the definition of “**Superior Proposal**”, the references in this definition of “**Acquisition Proposal**” to “20% or more of any voting or equity securities” shall be deemed to be references to “100% of the voting or equity securities”, and the references to “20% or more of the consolidated assets or contribute 20% or more of the consolidated revenue” shall be deemed to be references to “all or substantially all of the assets”;

“**affiliate**” has the meaning ascribed thereto in NI 45-106;

“**Agreement**”, “**herein**”, “**hereof**”, “**hereby**”, “**hereto**”, “**hereunder**” and similar expressions mean and refer to this Arrangement Agreement (including the schedules hereto) as supplemented, modified or amended, and not to any particular article, section, schedule or other portion hereof;

“**ARC**” means an advance ruling certificate issued under section 102 of the Competition Act;

“**Arrangement**” means the arrangement of Shoppers Drug Mart under section 192 of the CBCA on the terms and subject to the conditions set out in the Plan of Arrangement, subject to any amendments or variations thereto made in accordance with this Agreement and the Plan of Arrangement or made at the discretion of the Court in the Final Order (with the consent of each of the Parties, acting reasonably);

“**Articles of Arrangement**” means the articles of arrangement of Shoppers Drug Mart in respect of the Arrangement that are required by the CBCA to be sent to the Director after the Final Order is made which shall be in form and substance satisfactory to each of the Parties, acting reasonably;

“**business day**” means any day, other than a Saturday, a Sunday or a statutory holiday, in the Province of Ontario;

“**Canadian Securities Laws**” means the securities legislation and regulations thereunder of each province and territory of Canada and the rules, instruments, policies and orders of each Securities Regulator made thereunder;

“**Cash Consideration**” has the meaning ascribed thereto in the Plan of Arrangement;

“**CBCA**” means the *Canada Business Corporations Act*, as amended;

“**Certificate**” means the certificate of arrangement giving effect to the Arrangement, issued pursuant to subsection 192(7) of the CBCA after the Articles of Arrangement have been filed;

“**Commissioner**” means the Commissioner of Competition appointed under the Competition Act and includes a person duly authorized to exercise the powers and to perform the duties of the Commissioner;

“**Competition Act**” means the *Competition Act* (Canada), as amended, and includes the regulations thereunder;

“**Competition Act Approval**” means that one or more of the following shall have occurred: (i) the relevant waiting period in section 123 of the Competition Act shall have expired, there shall be no order issued by the Competition Tribunal under section 92, 100 or 104 of the Competition Act, and there shall be no agreement with the Commissioner precluding completion of the Arrangement contemplated by this Agreement; (ii) the Commissioner shall have issued a letter to the Parties indicating that he does not, at that time, intend to make an application under section 92 of the Competition Act in respect of the Arrangement contemplated by this Agreement; or (iii) the Commissioner shall have issued an ARC in respect of the Arrangement contemplated by this Agreement;

“**Competition Tribunal**” means the Competition Tribunal established under the *Competition Tribunal Act*, R.S.C. 1985, c. 19 (2nd Supp.), as amended;

“**Confidentiality Agreement**” means the confidentiality agreement between the Parties and GWL, dated July 13, 2013;

“**Consideration**” means the consideration to be received by a Shoppers Drug Mart Shareholder pursuant to the Plan of Arrangement for each Shoppers Drug Mart Share, consisting of, at the election of each holder, \$61.54 in cash or 1.29417 Loblaw Shares plus \$0.01 in cash for each Shoppers Drug Mart Share held, subject to pro ration as set out in the Plan of Arrangement;

“**Court**” means the Ontario Superior Court of Justice (Commercial List);

“**Damages Event**” has the meaning ascribed thereto in Section 7.2;

“**Depository**” has the meaning ascribed thereto in the Plan of Arrangement;

“**Director**” means the Director appointed pursuant to section 260 of the CBCA;

“**Dissent Rights**” means the rights of dissent provided for in the Plan of Arrangement;

“**Effective Date**” means the date of the Certificate;

“**Effective Time**” means 12:01 a.m. (Toronto Time) on the Effective Date, or such other time as the Parties may agree to in writing before the Effective Date;

“**Eligible Holder**” means a beneficial holder of Shoppers Drug Mart Shares that is: (i) a resident of Canada for purposes of the Tax Act and not exempt from tax under Part I of the Tax Act; or (ii) a partnership, any member of which is a resident of Canada for purposes of the Tax Act and not exempt from tax under Part I of the Tax Act;

“**Encumbrance**” includes any mortgage, pledge, assignment, charge, lien, security interest, adverse interest in property, other third party interest or encumbrance of any kind whether contingent or absolute, and any agreement, option, right or privilege, in each case, through the operation of Law, contract or otherwise, capable of becoming any of the foregoing;

“**Environmental Laws**” means, with respect to any Person or its business, activities, property, assets or undertaking, all Laws, including the common law, relating to environmental or

occupational health and safety matters in the jurisdictions applicable to such Person or its business, activities, property, assets or undertaking, including requirements governing the reduction of greenhouse gas emissions and the use and storage of Hazardous Substances;

“**Exchange Ratio**” means 1.29417 of a Loblaw Share plus the portion of a Loblaw Share that, immediately prior to the Effective Time, has a fair market value equal to \$0.01 cash;

“**Final Order**” means the order of the Court, in form and substance satisfactory to each of the Parties, acting reasonably, approving the Arrangement, as such order may be amended by the Court (with the consent of each of the Parties, acting reasonably) at any time prior to the Effective Date or, if appealed, then unless such appeal is withdrawn or denied, as affirmed or as amended (provided that any such amendment is satisfactory to each of the Parties, acting reasonably) on appeal;

“**GAAP**” means Canadian generally accepted accounting principles as contemplated by the Handbook of the Canadian Institute of Chartered Accountants;

“**GWL**” means George Weston Limited;

“**GWL Private Placement**” means the sale by Loblaw to GWL of 10,515,247 Loblaw Shares at a price of \$47.55 per Loblaw Share on a private placement basis;

“**Governmental Entity**” means any: (i) multinational, federal, provincial, territory, state, regional, municipal, local or other government or any governmental or public department, court, tribunal, arbitral body, commission, board, bureau or agency; or (ii) any subdivision, agent, commission, board or authority of any of the foregoing; or (iii) any stock exchange; or (iv) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing;

“**Hazardous Substances**” means any pollutant, contaminant, waste of any nature, hazardous substance, hazardous material, hazardous recyclable, toxic substance, dangerous substance or dangerous good as defined, judicially interpreted, or regulated under any Environmental Laws;

“**IFRS**” means International Financial Reporting Standards;

“**Interim Order**” means an order of the Court, in form and substance acceptable to each of the Parties, acting reasonably, containing declarations and directions in respect of the notice to be given and the conduct of the Shoppers Drug Mart Shareholders’ Meeting with respect to the Arrangement as more fully set out herein, as such order may be amended by the Court with the consent of each of the Parties, acting reasonably;

“**Laws**” means all laws, by-laws, statutes, rules, regulations, principles of law, orders, ordinances, protocols, codes, guidelines, policies, notices, directions and judgments or other requirements and the terms and conditions of any grant of approval, permission, authority or license of any Governmental Entity or self-regulatory authority and the term “applicable” with respect to such Laws and in a context that refers to one or more Parties, means such Laws as are applicable to such Party or its business, undertaking, property or securities and emanate from a Person having jurisdiction over the Party or Parties or its or their business, undertaking, property or securities; and “**Laws**” includes Environmental Laws;

“**Lenders**” means each of Bank of America, N.A., Bank of America, N.A., Canada Branch and Merrill Lynch, Pierce Fenner and Smith Inc. and any other person who becomes a lender in respect of the Loblaw Debt Financing pursuant to the Loblaw Commitment Letter;

“**Loblaw Commitment Letter**” means the commitment letter dated July 14, 2013 between Loblaw and the Lenders, including the summaries of terms attached thereto and the fee letter associated therewith;

“**Loblaw Debt Financing**” means the agreement of each of the Lenders to lend, subject to the terms and conditions of the Loblaw Commitment Letter, the amounts set forth therein, the proceeds of which will be used by Loblaw for purposes of financing the aggregate cash component of the Consideration;

“**Loblaw Financial Statements**” has the meaning ascribed thereto in subsection (k) of Schedule 3.1;

“**Loblaw Options**” means the options to purchase Loblaw Shares granted by Loblaw pursuant to the provisions of the Loblaw Stock Option Plan;

“**Loblaw Shareholder Approval**” means the approval of the Loblaw Shareholders by ordinary resolution of the issuance of Loblaw Shares pursuant to the Arrangement, as required by section 611 of the TSX Company Manual, which approval shall be obtained either at a special meeting of the Loblaw Shareholders or through a written consent satisfactory to the TSX;

“**Loblaw Shareholders**” means the holders of Loblaw Shares;

“**Loblaw Shares**” means the common shares in the capital of Loblaw;

“**Loblaw Stock Option Plan**” means Loblaw’s Employee Stock Option Plan, as amended;

“**Material Adverse Change**” or “**Material Adverse Effect**” means, with respect to any Person, any fact or state of facts, circumstance, change, effect, occurrence or event which: (i) either individually is or in the aggregate are, or individually or in the aggregate would reasonably be expected to be, material and adverse to the business, operations, results of operations, properties, assets, liabilities, obligations (whether absolute, accrued, conditional or otherwise) or condition (financial or otherwise) of such Person and its Subsidiaries, on a consolidated basis, except to the extent of any fact or state of facts, circumstance, change, effect, occurrence or event resulting from or arising in connection with: (a) the announcement of the execution of this Agreement or the transactions contemplated herein; or (b) any change in GAAP or changes in applicable regulatory accounting requirements applicable to the industries in which it conducts business; or (c) any change in global, national or regional political conditions (including the outbreak of war or acts of terrorism) or in general economic, business, regulatory, or market conditions or in national or global financial or capital markets; or (d) any change generally affecting the industries in which it conducts business; or (e) any natural disaster; or (f) any actions taken (or omitted to be taken) at the written request of any other Party hereto; or (g) any action taken by the Person or any of its Subsidiaries that is required pursuant to this Agreement (excluding any obligation to act in the ordinary course of business, but including any steps taken pursuant to Sections 5.3(a) and 5.8 to obtain any required regulatory approvals); provided, however, that with respect to clauses (b), (c), (d) and (e), such matter does not have a materially disproportionate effect on the Person and its Subsidiaries, taken as a whole, relative to comparable entities operating in the industries in which it conducts business, and references in certain sections of this Agreement to dollar amounts are not intended to be, and shall not be deemed to

be, illustrative or interpretative for purposes of determining whether a “Material Adverse Change” or a “Material Adverse Effect” has occurred; or (ii) either individually or in the aggregate would reasonably be expected to be materially adverse to the ability of the relevant Person to consummate the transactions contemplated by this Agreement;

“**Material Subsidiary**” means a Subsidiary, the total assets of which constitute more than 10% of the consolidated assets of Loblaw or Shoppers Drug Mart (as applicable) as at December 29, 2012, or the total revenues of which constitute more than 10% of the consolidated revenues of Loblaw or Shoppers Drug Mart (as applicable) for the year ended December 29, 2012;

“**NI 45-106**” means National Instrument 45-106 – *Prospectus and Registration Exemptions* of the Canadian Securities Administrators;

“**Outside Date**” means February 14, 2014, or such later date as may be agreed to by the Parties, provided that the Outside Date: (i) shall automatically be extended if the Competition Act Approval has not been obtained to the tenth business day following the date on which that approval is obtained; or (ii) may be postponed by either Loblaw or Shoppers Drug Mart on no more than two occasions by a period of up to 30 days per occasion if an action, suit or proceeding shall have been taken, commenced or threatened before or by any Governmental Entity (other than in relation to Competition Act Approval) to cease trade, enjoin, prohibit or impose material limitations or conditions on the Arrangement or which would have such an effect and the Party electing to postpone the Outside Date, if that Party is a party to such action, suit or proceeding, is diligently contesting it, by giving written notice to the other Party to such effect no later than 5:00 p.m. (Toronto Time) on the date that is five days prior to the then current Outside Date; provided further, however, in no event shall the Outside Date be extended beyond April 14, 2014;

“**Parties**” means Loblaw and Shoppers Drug Mart, and “**Party**” means either one of them;

“**Person**” includes an individual, firm, trust, partnership, association, corporation, joint venture, trustee, executor, administrator, legal representative or government (including any Governmental Entity);

“**Plan of Arrangement**” means the plan of arrangement of Shoppers Drug Mart substantially in the form annexed as Schedule 1.1(a) hereto and any amendment or variation thereto made in accordance with Section 8.3 hereof or the Plan of Arrangement or made at the direction of the Court in the Final Order (in form and substance satisfactory to each of the Parties, acting reasonably);

“**Replacement Option**” means an option or right to purchase Loblaw Shares granted by Loblaw in replacement of Shoppers Drug Mart Options on the basis set forth in Section 5.10(a)(iii);

“**Representatives**” means the officers, directors, employees, financial advisors, legal counsel, accountants and other agents and representatives of a Party;

“**Securities Regulators**” means the securities commission or other securities regulatory authority of each province and territory of Canada;

“**Share Consideration**” has the meaning ascribed thereto in the Plan of Arrangement;

“**Shoppers Drug Mart Arrangement Resolution**” means a special resolution of Shoppers Drug Mart in substantially the form of Schedule 1.1(b) hereto;

“Shoppers Drug Mart CEO DSU Plan” means Shoppers Drug Mart’s Deferred Share Unit Plan for the Chief Executive Officer dated November 9, 2011;

“Shoppers Drug Mart Circular” means the notice of the Shoppers Drug Mart Shareholders’ Meeting to be sent to Shoppers Drug Mart Shareholders and the management proxy circular to be prepared in connection with the Shoppers Drug Mart Shareholders’ Meeting together with any amendments thereto or supplements thereof;

“Shoppers Drug Mart DSU Plan” means Shoppers Drug Mart’s Deferred Share Unit Plan for Non-Employee Directors as amended and restated effective February 9, 2007 and February 7, 2013;

“Shoppers Drug Mart DSUs” means the deferred share units granted under the Shoppers Drug Mart DSU Plan and the Shoppers Drug Mart CEO DSU Plan;

“Shoppers Drug Mart Financial Statements” has the meaning ascribed thereto in subsection (k) of Schedule 4.1;

“Shoppers Drug Mart Incentive Compensation Plans” means the Shoppers Drug Mart RSU Plans, the Shoppers Drug Mart DSU Plan, the Shoppers Drug Mart CEO DSU Plan, the Shoppers Drug Mart Share Plans and the Shoppers Drug Mart Predecessor Plans;

“Shoppers Drug Mart Licensee” means any Person that has been licensed to, and operates a store, pharmacy or other business using Shoppers Drug Mart’s trademarks;

“Shoppers Drug Mart Options” means the options to purchase Shoppers Drug Mart Shares granted by Shoppers Drug Mart pursuant to the provisions of the Shoppers Drug Mart Share Plans and the Shoppers Drug Mart Predecessor Plans;

“Shoppers Drug Mart Predecessor Plans” means Shoppers Drug Mart’s 2000 Stock Purchase and Option Plans and Shoppers Drug Mart’s 2001 Employee Share Purchase Plan;

“Shoppers Drug Mart RSU Plans” means Shoppers Drug Mart’s Restricted Share Unit Plans dated November 11, 2009, and as amended and restated effective February 9, 2012;

“Shoppers Drug Mart RSUs” means the restricted share units granted under the Shoppers Drug Mart RSU Plans;

“Shoppers Drug Mart Share Awards” means the Shoppers Drug Mart DSUs and Shoppers Drug Mart RSUs;

“Shoppers Drug Mart Share Plans” means Shoppers Drug Mart’s Share Incentive Plans dated November 21, 2001, as amended and restated effective November 4, 2005, November 8, 2006, February 9, 2007 and Shoppers Drug Mart’s Share Incentive Plan as amended and restated effective February 9, 2012;

“Shoppers Drug Mart Shareholder Rights Plan” means Shoppers Drug Mart’s Shareholder Rights Plan dated as of March 31, 2005;

“Shoppers Drug Mart Shareholders” means the holders of Shoppers Drug Mart Shares;

“**Shoppers Drug Mart Shareholders’ Meeting**” means such meeting or meetings of Shoppers Drug Mart Shareholders, including any adjournment or postponement thereof, that is to be convened to consider, and if deemed advisable approve, the Shoppers Drug Mart Arrangement Resolution;

“**Shoppers Drug Mart Shares**” means the common shares in the capital of Shoppers Drug Mart;

“**SIR**” has the meaning specified in Section 5.8(a);

“**Subsidiary**” has the meaning ascribed thereto in NI 45-106; provided that, notwithstanding the foregoing, Choice Properties Real Estate Investment Trust and Choice Properties Limited Partnership shall be deemed not to be Subsidiaries of Loblaw for purposes of this Agreement;

“**Superior Proposal**” has the meaning ascribed thereto in Section 7.1(b);

“**Tax Act**” means the *Income Tax Act* (Canada), as amended, including the regulations promulgated thereunder, as amended from time to time;

“**Taxes**” means all taxes, however denominated, including any interest, penalties or other additions that may become payable in respect thereof, imposed by any Governmental Entity, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes (including, but not limited to, federal, provincial and state income taxes), capital taxes, payroll and employee withholding taxes, employment insurance, social insurance taxes (including Canada Pension Plan payments), sales and use taxes, goods and services tax, harmonized sales tax, ad valorem taxes, excise taxes, franchise taxes, gross receipts taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, transfer taxes, workers’ compensation premiums or charges, pension assessment and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing, which one of the Parties or any of its Subsidiaries is required to pay, withhold or collect;

“**TSX**” means the Toronto Stock Exchange;

“**U.S. Securities Act**” means the United States *Securities Act of 1933*, as amended;

“**Unvested Shoppers Drug Mart Share Award**” has the meaning ascribed thereto in Section 5.10(a)(ii); and

“**Vested Shoppers Drug Mart RSU**” has the meaning ascribed thereto in Section 5.10(a)(i).

1.2 Interpretation Not Affected by Headings

The division of this Agreement into Articles, Sections and subsections and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

1.3 Article References

Unless the contrary intention appears, references in this Agreement to an Article, Section, subsection or Schedule by number or letter or both refer to the Article, Section, subsection or Schedule, respectively, bearing that designation in this Agreement.

1.4 Number and Gender

In this Agreement, unless the contrary intention appears, words importing the singular include the plural and vice versa, and words importing gender shall include all genders.

1.5 Date for Any Action

If the date on which any action is required to be taken hereunder by a Party is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

1.6 Currency

Unless otherwise stated, all references in this Agreement to sums of money are expressed in lawful money of Canada.

1.7 Schedules

The following Schedules annexed to this Agreement, being:

Schedule 1.1(a)	Plan of Arrangement
Schedule 1.1(b)	Form of Shoppers Drug Mart Arrangement Resolution
Schedule 3.1	Representations and Warranties of Loblaw
Schedule 4.1	Representations and Warranties of Shoppers Drug Mart

are incorporated by reference into this Agreement and form a part hereof.

1.8 Accounting Matters

Unless otherwise stated, all accounting terms used in this Agreement shall have the meanings attributable thereto under GAAP and all determinations of an accounting nature required to be made shall be made in a manner consistent with GAAP.

1.9 Knowledge

In this Agreement, references to “to the knowledge of” means the actual knowledge of the Executive Officers of Loblaw or Shoppers Drug Mart, as the case may be, after reasonable inquiry, and such officers shall make such inquiry as is reasonable in the circumstances. For purposes of this Section 1.9, “**Executive Officers**” in the case of Loblaw means Loblaw’s Executive Chairman, President, Chief Financial Officer and Executive Vice President and Chief Legal Officer and, in the case of Shoppers Drug Mart, means Shoppers Drug Mart’s President and Chief Executive Officer, Executive Vice-President and Chief Financial Officer, Executive Vice-President and Chief Merchandising Officer, Chief Administrative Officer and Executive Vice-President, Human Resources and Public Affairs and Executive Vice-President, Legal Affairs and General Counsel.

1.10 Other Definitional and Interpretive Provisions

- (a) References in this Agreement to the words “include”, “includes” or “including” shall be deemed to be followed by the words “without limitation” whether or not they are in fact followed by those words or words of like import.

- (b) Any capitalized terms used in any exhibit or Schedule but not otherwise defined therein, shall have the meaning as defined in this Agreement.
- (c) References to any agreement or contract are to that agreement or contract as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof. Any reference in this Agreement to a Person includes the heirs, administrators, executors, legal personal representatives, predecessors, successors and permitted assigns of that Person.
- (d) References to a particular statute or Law shall be to such statute or Law and the rules, regulations and published policies made thereunder, as now in effect and as they may be promulgated thereunder or amended from time to time.

ARTICLE II THE ARRANGEMENT

2.1 The Arrangement

Loblaw and Shoppers Drug Mart agree that the Arrangement shall be implemented in accordance with the terms and subject to the conditions contained in this Agreement and the Plan of Arrangement.

2.2 Loblaw Approval

Loblaw represents and warrants to Shoppers Drug Mart that its board of directors:

- (a) has unanimously determined that the Arrangement and entry into this Agreement are in the best interests of Loblaw; and
- (b) has received an opinion from Bank of America Merrill Lynch, the financial advisor to Loblaw, that the Arrangement is fair from a financial point of view to Loblaw.

2.3 Shoppers Drug Mart Approval

Shoppers Drug Mart represents and warrants to Loblaw that its board of directors:

- (a) has unanimously determined that:
 - (i) the Arrangement is fair to the Shoppers Drug Mart Shareholders;
 - (ii) it will recommend that the Shoppers Drug Mart Shareholders vote in favour of the Arrangement; and
 - (iii) the Arrangement and entry into this Agreement are in the best interests of Shoppers Drug Mart; and
- (b) has received an opinion from RBC Capital Markets, the financial advisor to Shoppers Drug Mart, that the Consideration is fair from a financial point of view to the Shoppers Drug Mart Shareholders.

2.4 Obligations of Loblaw

Subject to the terms and conditions of this Agreement, in order to facilitate the Arrangement, Loblaw shall take all action necessary in accordance with all applicable Laws, including Canadian Securities Laws, to:

- (a) obtain the Loblaw Shareholder Approval as promptly as practicable with a targeted date of September 12, 2013, and in any event not later than September 23, 2013; and
- (b) seek approval as promptly as practicable from the TSX of the fulfillment of Loblaw's obligations in Section 2.4(a) by written resolution.

2.5 Obligations of Shoppers Drug Mart

Subject to the terms and conditions of this Agreement, in order to facilitate the Arrangement, Shoppers Drug Mart shall take all action necessary in accordance with all applicable Laws, including Canadian Securities Laws, to:

- (a) make and diligently prosecute an application to the Court for the Interim Order in respect of the Arrangement in a manner acceptable to Loblaw, acting reasonably;
- (b) in accordance with the terms of and the procedures contained in the Interim Order, duly call, give notice of, convene and hold the Shoppers Drug Mart Shareholders' Meeting as promptly as practicable with a targeted date of September 12, 2013, and in any event not later than September 23, 2013, to vote upon the Arrangement and any other matters as may be properly brought before the Shoppers Drug Mart Shareholder Meeting;
- (c) solicit proxies of Shoppers Drug Mart Shareholders in favour of the Arrangement, and, if so requested in writing by Loblaw, engage a proxy solicitation agent for such purpose, and cooperate with any such agent or other persons engaged by Loblaw to solicit proxies in favour of the Arrangement;
- (d) give notice to Loblaw of the Shoppers Drug Mart Shareholders' Meeting and allow Loblaw's representatives and legal counsel to attend the Shoppers Drug Mart Shareholders' Meeting;
- (e) subject to obtaining the approvals as contemplated in the Interim Order and as may be directed by the Court in the Interim Order, take all steps necessary or desirable to submit the Arrangement to the Court and appear at Court to seek the Final Order as soon as reasonably practicable and, in any event, within five business days following the approval of the Shoppers Drug Mart Arrangement Resolution at the Shoppers Drug Mart Shareholders' Meeting; and
- (f) deliver the Articles of Arrangement to the Director upon satisfaction or waiver of the conditions set forth in Article VI.

2.6 Interim Order

The notice of motion referred to in Section 2.5(a) shall request that an Interim Order be granted and provide, among other things:

- (a) for the class of Persons to whom notice is to be provided in respect of the Arrangement and the Shoppers Drug Mart Shareholders' Meeting and for the manner in which such notice is to be provided;
- (b) that the requisite approval for the Shoppers Drug Mart Arrangement Resolution to be placed before the Shoppers Drug Mart Shareholders' Meeting shall be 66 2/3% of the votes cast on the Shoppers Drug Mart Arrangement Resolution by Shoppers Drug Mart Shareholders present in person or by proxy at the Shoppers Drug Mart Shareholders' Meeting; such that each Shoppers Drug Mart Shareholder is entitled to one vote for each Shoppers Drug Mart Share held;
- (c) that the Shoppers Drug Mart Shareholders' Meeting may be adjourned or postponed from time to time in accordance with this Agreement without the need for additional approval by the Court;
- (d) that the record date for Shoppers Drug Mart Shareholders entitled to notice of and to vote at the Shoppers Drug Mart Shareholders' Meeting will not change as a result of any adjournments of the Shoppers Drug Mart Shareholders' Meeting;
- (e) that, in all other respects, other than as ordered by the Court, the terms, restrictions and conditions of the constating documents of Shoppers Drug Mart, including quorum requirements and all other matters, shall apply in respect of the Shoppers Drug Mart Shareholders' Meeting;
- (f) for the grant of the Dissent Rights to registered holders of Shoppers Drug Mart Shares as set forth in the Plan of Arrangement;
- (g) for the notice requirements with respect to the presentation of the application to the Court for the Final Order;
- (h) that it is Loblaw's intention to rely upon the exemption from registration provided by Section 3(a)(10) of the U.S. Securities Act with respect to the issuance of the Loblaw Shares pursuant to the Arrangement, based on the Court's approval of the Arrangement; and
- (i) for such other matters as Loblaw may reasonably require, subject to the consent of Shoppers Drug Mart, acting reasonably.

2.7 Court Proceedings

Subject to the terms of this Agreement, Loblaw shall cooperate with and assist Shoppers Drug Mart in seeking the Interim Order and the Final Order, including by providing to Shoppers Drug Mart on a timely basis any information reasonably required to be supplied by Loblaw in connection therewith. Shoppers Drug Mart shall provide legal counsel to Loblaw with a reasonable opportunity to review and comment upon drafts of all material to be filed with the Court in connection with the Arrangement, and shall give reasonable consideration to all such comments. Subject to applicable Law, Shoppers Drug Mart will not file any material with the Court in connection with the Arrangement or serve any such material, and will not agree to modify or amend materials so filed or served, except as contemplated by this Section 2.7 or with Loblaw's prior written consent, such consent not to be unreasonably withheld, conditioned or delayed; provided that nothing herein shall require Loblaw to agree or consent to any increase in the Consideration or other modification or

amendment to such filed or served materials that expands or increases Loblaw's obligations set forth in any such filed or served materials or under this Agreement or the Arrangement. Shoppers Drug Mart shall also provide to Loblaw's legal counsel on a timely basis copies of any notice of appearance or other Court documents served on Shoppers Drug Mart in respect of the application for the Interim Order or the Final Order or any appeal therefrom and of any notice, whether written or oral, received by Shoppers Drug Mart indicating any intention to oppose the granting of the Interim Order or the Final Order or to appeal the Interim Order or the Final Order. Shoppers Drug Mart shall ensure that all materials filed with the Court in connection with the Arrangement are consistent in all material respects with the terms of this Agreement and the Plan of Arrangement. In addition, Shoppers Drug Mart will not object to legal counsel to Loblaw making such submissions on the hearing of the motion for the Interim Order and the application for the Final Order as such counsel considers appropriate; provided that Shoppers Drug Mart is advised of the nature of any submissions prior to the hearing and such submissions are consistent with this Agreement and the Plan of Arrangement. Shoppers Drug Mart shall also oppose any proposal from any party that the Final Order contains any provision inconsistent with this Agreement, and, if at any time after the issuance of the Final Order and prior to the Effective Date, Shoppers Drug Mart is required by the terms of the Final Order or by applicable Law to return to Court with respect to the Final Order, it shall do so after notice to, and in consultation and cooperation with, Loblaw.

2.8 Shoppers Drug Mart Circular

- (a) As promptly as reasonably practicable following execution of this Agreement, Shoppers Drug Mart shall: (i) prepare the Shoppers Drug Mart Circular together with any other documents required by applicable Laws; (ii) file the Shoppers Drug Mart Circular in all jurisdictions where the same is required to be filed; and (iii) mail the Shoppers Drug Mart Circular as required under all applicable Laws and the Interim Order. On the date of mailing thereof, the Shoppers Drug Mart Circular shall be complete and correct in all material respects, shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they are made, not misleading and shall comply in all material respects with all applicable Laws and the Interim Order, and shall contain sufficient detail to permit the Shoppers Drug Mart Shareholders to form a reasoned judgment concerning the matters to be placed before them at the Shoppers Drug Mart Meeting (except that Shoppers Drug Mart shall not be responsible for any information relating to Loblaw and its affiliates or the Loblaw Shares). Subject to Section 7.1, the Shoppers Drug Mart Circular shall state that the board of directors of Shoppers Drug Mart: (i) has unanimously determined that the Arrangement is fair to the Shoppers Drug Mart Shareholders and that the Arrangement and entry into this Agreement are in the best interests of Shoppers Drug Mart; and (ii) recommends that the Shoppers Drug Mart Shareholders vote in favour of the Arrangement.
- (b) Loblaw shall provide to Shoppers Drug Mart all information regarding Loblaw, its affiliates and the Loblaw Shares, including any *pro forma* financial statements prepared in accordance with applicable Laws and as reasonably requested by Shoppers Drug Mart or as required by the Interim Order or applicable Laws for inclusion in the Shoppers Drug Mart Circular. Loblaw shall also use commercially reasonable efforts to obtain any necessary consents from any of its auditors and any other advisors to the use of any financial, technical or other expert information required to be included in the Shoppers Drug Mart Circular and to the identification in the Shoppers Drug Mart Circular of each such advisor. Loblaw shall ensure that

any such information will not include any misrepresentation including concerning Loblaw, its affiliates and the Consideration.

- (c) Loblaw and its legal counsel shall be given a reasonable opportunity to review and comment on the Shoppers Drug Mart Circular and other related documents prior to the Shoppers Drug Mart Circular and other related documents being printed and filed with the Governmental Entities, and reasonable consideration shall be given to any comments made by Loblaw and its legal counsel; provided that all information relating solely to Loblaw, its affiliates and the Loblaw Shares included in the Shoppers Drug Mart Circular shall be in form and substance satisfactory to Loblaw, acting reasonably. Shoppers Drug Mart shall provide Loblaw with final copies of the Shoppers Drug Mart Circular prior to its mailing to the Shoppers Drug Mart Shareholders.
- (d) Loblaw and Shoppers Drug Mart shall each promptly notify each other if at any time before the Effective Date either becomes aware that the Shoppers Drug Mart Circular contains a misrepresentation, or that the Shoppers Drug Mart Circular otherwise requires an amendment or supplement and the Parties shall co-operate in the preparation of any amendment or supplement to the Shoppers Drug Mart Circular as required or appropriate, and Shoppers Drug Mart shall promptly mail or otherwise publicly disseminate any amendment or supplement to the Shoppers Drug Mart Circular to Shoppers Drug Mart Shareholders and, if required by the Court or applicable Laws, file the same with the Governmental Entities and as otherwise required.

2.9 Conduct of the Shoppers Drug Mart Shareholders' Meeting

- (a) Subject to the terms of this Agreement, Shoppers Drug Mart agrees to convene and conduct the Shoppers Drug Mart Shareholders' Meeting, in accordance with its constating documents, the Interim Order and applicable Laws. Subject to the terms of this Agreement, Shoppers Drug Mart agrees not to propose to adjourn or postpone the Shoppers Drug Mart Shareholders' Meeting without the prior consent of Loblaw:
 - (i) except as required for quorum purposes (in which case the meeting shall be adjourned and not cancelled) or by applicable Law or by a Governmental Entity; or
 - (ii) except as permitted or required under Section 6.4 or 7.1(d); or
 - (iii) except for an adjournment for the purpose of attempting to obtain the requisite approval of the Shoppers Drug Mart Arrangement Resolution.
- (b) Notwithstanding the receipt by Shoppers Drug Mart of a Superior Proposal in accordance with Section 7.1, unless otherwise agreed to in writing by Loblaw or this Agreement is terminated in accordance with its terms or except as required by applicable Law or by a Governmental Entity, Shoppers Drug Mart shall continue to take all steps reasonably necessary to hold the Shoppers Drug Mart Shareholders' Meeting and to cause the Shoppers Drug Mart Arrangement Resolution to be voted on at such meeting and shall not propose to adjourn or postpone such meeting other than as contemplated by Section 2.9(a).

- (c) Shoppers Drug Mart shall not propose or submit for consideration at the Shoppers Drug Mart Shareholders' Meeting any business other than the Arrangement without Loblaw's prior written consent, such consent not to be unreasonably withheld, conditioned or delayed.

2.10 Shoppers Drug Mart Shareholder Rights Plan

Shoppers Drug Mart and its board of directors shall take all action necessary, immediately prior to the Effective Time, to waive the application of the Shoppers Drug Mart Shareholder Rights Plan to the Arrangement and to ensure that the Shoppers Drug Mart Shareholder Rights Plan does not interfere with or impede the success of the Arrangement.

2.11 Effective Date

The Arrangement shall become effective at the Effective Time on the Effective Date. Upon issuance of the Final Order and subject to the satisfaction or waiver of the conditions precedent in Article VI, each of Loblaw and Shoppers Drug Mart shall execute and deliver such closing documents and instruments and on the fifth business day following satisfaction or waiver of such conditions precedent (excluding conditions that, by their terms, cannot be satisfied until the Effective Time) shall proceed to file the Articles of Arrangement, the Final Order and such other documents as may be required to give effect to the Arrangement with the Director pursuant to section 192 of the CBCA, whereupon the transactions comprising the Arrangement shall occur and shall be deemed to have occurred in the order set out therein without any further act or formality.

2.12 Payment of Consideration

Loblaw will, on the Effective Date, prior to the sending of the Articles of Arrangement to the Director, deposit in escrow with the Depository: (i) sufficient funds to satisfy the Cash Consideration payable to the Shoppers Drug Mart Shareholders, plus sufficient funds to satisfy any cash payments in lieu of fractional Loblaw Shares; and (ii) sufficient Loblaw Shares to satisfy the Share Consideration payable to the Shoppers Drug Mart Shareholders, pursuant to the Plan of Arrangement.

2.13 Board of Directors of Loblaw

Loblaw shall take all necessary actions to ensure that upon the completion of the Arrangement, the board of directors of Loblaw shall consist of fourteen directors including four current directors of Shoppers Drug Mart to be identified and agreed upon by the Parties, acting reasonably.

2.14 Shareholder Communications

The Parties agree to issue jointly a press release with respect to this Agreement as soon as practicable after its due execution. Thereafter, Loblaw and Shoppers Drug Mart agree to co-operate and participate in presentations to investors regarding the Arrangement prior to the making of such presentations and to promptly advise, consult and co-operate with each other in issuing any press releases or otherwise making public statements with respect to this Agreement or the Arrangement and in making any filing with any Governmental Entity or with any stock exchange, including the TSX, with respect thereto. Each Party shall: (i) not issue any press release or otherwise make public statements with respect to this Agreement or the Arrangement without the consent of the other Party, which consent shall not be unreasonably withheld, conditioned or delayed; and (ii) enable the other Party to review and comment on all such press releases prior to the release thereof and shall enable the

other Party to review and comment on such filings prior to the filing thereof; provided, however, that the foregoing shall be subject to each Party's overriding obligation to make disclosure in accordance with applicable Laws, and if such disclosure is required and the other Party has not reviewed or commented on the disclosure, the Party making such disclosure shall use commercially reasonable efforts to give prior oral or written notice to the other Party, and if such prior notice is not possible, to give such notice immediately following the making of such disclosure or filing. For the avoidance of doubt, the foregoing shall not prevent either Party from making internal announcements to employees and having discussions with shareholders and financial analysts and other stakeholders so long as such statements and announcements are consistent with the most recent press releases, public disclosures or public statements made by the Parties.

ARTICLE III REPRESENTATIONS AND WARRANTIES OF LOBLAW

3.1 Representations and Warranties

Except (i) as set forth in documents filed by Loblaw and publicly available on the System for Electronic Document Analysis and Retrieval since December 30, 2012 and prior to the date hereof, or (ii) disclosed in writing by Loblaw to Shoppers Drug Mart on or prior to the date hereof, Loblaw hereby makes to Shoppers Drug Mart the representations and warranties set forth in Schedule 3.1 hereto and acknowledges that Shoppers Drug Mart is relying upon such representations and warranties in connection with the entering into of this Agreement and the carrying out of the transactions contemplated herein.

3.2 Investigation

Any investigation by Shoppers Drug Mart and its advisors shall not mitigate, diminish or affect the representations and warranties of Loblaw pursuant to this Agreement.

3.3 Survival of Representations and Warranties

The representations and warranties of Loblaw contained in this Agreement shall expire and be terminated on the earlier of the Effective Date and the date on which this Agreement is terminated in accordance with its terms.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF SHOPPERS DRUG MART

4.1 Representations and Warranties

Except as (i) set forth in documents filed by Shoppers Drug Mart and publicly available on the System for Electronic Document Analysis and Retrieval since December 30, 2012 and prior to the date hereof, or (ii) disclosed in writing by Shoppers Drug Mart to Loblaw on or prior to the date hereof, Shoppers Drug Mart hereby makes to Loblaw the representations and warranties set forth in Schedule 4.1 hereto, and acknowledges that Loblaw is relying upon such representations and warranties in connection with the entering into of this Agreement and the carrying out of the transactions contemplated herein.

4.2 Investigation

Any investigation by Loblaw and its advisors shall not mitigate, diminish or affect the representations and warranties of Shoppers Drug Mart pursuant to this Agreement.

4.3 Survival of Representations and Warranties

The representations and warranties of Shoppers Drug Mart contained in this Agreement shall expire and be terminated on the earlier of the Effective Date and the date on which this Agreement is terminated in accordance with its terms.

ARTICLE V COVENANTS

5.1 Conduct of Business by Shoppers Drug Mart

Shoppers Drug Mart covenants and agrees that during the period from the date of this Agreement until the earlier of the Effective Date and the time that this Agreement is terminated in accordance with its terms, unless otherwise: (i) agreed to in writing by Loblaw (such agreement to be subject to applicable Law and not be unreasonably withheld, conditioned or delayed); or (ii) required or expressly permitted or specifically contemplated by this Agreement or the Arrangement (including for greater certainty pursuant to Sections 5.5 and 5.7 of this Agreement and any steps taken pursuant to Sections 5.3(a) and 5.8 of this Agreement to obtain any required regulatory approvals):

- (a) the business of Shoppers Drug Mart and its Subsidiaries shall be conducted only in, and Shoppers Drug Mart and its Subsidiaries shall not take any action except in, the ordinary course of business and consistent with past practice, and Shoppers Drug Mart shall use all commercially reasonable efforts to maintain and preserve its and their business organization, assets, employees and advantageous business relationships;
- (b) Shoppers Drug Mart shall not, and shall not permit any of its Subsidiaries to, directly or indirectly: (i) amend Shoppers Drug Mart's constating documents or amend in any material respects the constating documents of any of its Subsidiaries; or (ii) declare, set aside or pay any dividend or other distribution or payment in cash, shares or property in respect of its shares owned by any Person, except regular quarterly dividends to Shoppers Drug Mart Shareholders in an amount not to exceed \$0.285 per Shoppers Drug Mart Share; or (iii) issue, grant, sell or pledge or agree to issue, grant, sell or pledge any shares of Shoppers Drug Mart or any of its Subsidiaries, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, shares of Shoppers Drug Mart or any of its Subsidiaries, other than Shoppers Drug Mart Shares issuable pursuant to the terms of outstanding Shoppers Drug Mart Options and convertible securities and other than option grants in the ordinary course of business consistent with past practice; or (iv) split, consolidate, redeem, purchase or otherwise acquire any of its outstanding shares or other securities; or (v) amend the terms of any of its securities; or (vi) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or reorganization; or (vii) enter into, modify or terminate any contract, agreement, commitment or arrangement with respect to any of the foregoing, except as permitted above, other than, in each case, in relation to any internal transaction solely involving Shoppers Drug Mart and its wholly-owned Subsidiaries (including

for greater certainty any joint venture, or partnership solely among Shoppers Drug Mart and any of its wholly-owned Subsidiaries or solely among any such Subsidiaries or any trust settled solely for the benefit of any of the foregoing entities or any combination thereof);

- (c) Shoppers Drug Mart shall not, and shall not permit any of its Subsidiaries to, directly or indirectly: (i) sell, pledge, dispose of or encumber any assets of Shoppers Drug Mart or any of its Subsidiaries with a value individually or in the aggregate exceeding \$75 million from and after December 31, 2012 excluding the sale of accounts receivable and inventory disposed of in the ordinary course of business; or (ii) acquire (by merger, amalgamation, consolidation or acquisition of shares or assets) any corporation, partnership or other business organization or division thereof or make any investment either by purchase of shares or securities, contributions of capital (other than to wholly-owned Subsidiaries), or purchase of any property or assets of any other individual or entity with a value individually or in the aggregate exceeding \$75 million from and after December 31, 2012; or (iii) make any changes in financial accounting methods, principles, policies or practices, except as required, in each case, by GAAP or by applicable Law; or (iv) enter into any agreements or other transactions with any officer or director of Shoppers Drug Mart or any of its subsidiaries, except as otherwise contemplated under Sections 5.1(e) or 5.1(f); or (v) incur any indebtedness for borrowed money or any other liability or obligation or issue any debt securities or assume, guarantee, endorse or otherwise as an accommodation become responsible for, the obligations of any other individual or entity, or make any loans or advances: except: (A) in the ordinary course of business consistent with past practice; (B) for refinancing existing debt on commercially reasonable terms given market conditions at the applicable time; or (C) in relation to internal transactions solely involving Shoppers Drug Mart and its wholly-owned Subsidiaries or solely among such Subsidiaries; or (vi) pay, discharge, settle, satisfy, compromise, waive, assign or release any action, claim, proceeding, liability or obligation (including any regulatory investigation), other than the payment, discharge or satisfaction of liabilities incurred in the ordinary course of business consistent with past practice, or in an amount of not more than \$10 million in respect of each such liability; or (vii) release or relinquish, or authorize or propose to do so, any contractual right which is material to the business of Shoppers Drug Mart; or (viii) enter into any license, lease, contract or other document which is material to the business of Shoppers Drug Mart or waive, release, grant or transfer any rights of value or modify or change any existing license, lease, contract or other document which is material to the business of Shoppers Drug Mart, other than in the ordinary course of business consistent with past practice; or (ix) enter into or terminate any hedges, derivatives, swaps or other financial instruments or like transaction; or (x) materially change the business or regulatory strategy of Shoppers Drug Mart or its subsidiaries; or (xi) authorize or propose any of the foregoing, or enter into or modify any contract, agreement, commitment or arrangement to do any of the foregoing, other than, in each case, in relation to any internal transaction solely involving Shoppers Drug Mart and its wholly-owned Subsidiaries (including for greater certainty any joint venture, or partnership solely among Shoppers Drug Mart and any of its wholly-owned Subsidiaries or solely among any such Subsidiaries or any trust settled solely for the benefit of any of the foregoing entities or any combination thereof);

- (d) Shoppers Drug Mart shall not incur or commit to capital expenditures which when taken together with acquisitions made pursuant to subsection (c)(ii) above individually or in the aggregate exceed \$325 million from and after December 31, 2012;
- (e) except in the ordinary course of business consistent with past practice or pursuant to existing employment, collective bargaining, pension, supplemental pension, termination or compensation arrangements, policies or agreements, Shoppers Drug Mart shall not, and shall not permit any of its Subsidiaries to, grant to any executive officer or director an increase in compensation in any form, grant to any other employee any increase in compensation in any form, make any loan to any officer or director, or take any action with respect to the grant of any change of control, severance, retention or termination pay to, or the entering into of any employment agreement with, any executive officer or director of Shoppers Drug Mart or any of its Subsidiaries, or with respect to any increase of benefits payable under its current change of control, severance or termination pay policies;
- (f) neither Shoppers Drug Mart nor any of its Subsidiaries shall adopt or amend or make any contribution to any bonus, profit sharing, option, pension, retirement, deferred compensation, insurance, retention, incentive compensation, other compensation or other similar plan, agreement, trust, fund or arrangement for the benefit of employees, except as is necessary to comply with applicable Law or non-discretionary requirements of pre-existing plans;
- (g) Shoppers Drug Mart shall use its commercially reasonable efforts (taking into account insurance market conditions and offerings and industry practices) to cause its current insurance (or re-insurance) policies, including directors' and officers' insurance, not to be cancelled or terminated or any of the coverage thereunder to lapse, except where such cancellation, termination or lapse would not individually or in the aggregate be material to Shoppers Drug Mart, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance or re-insurance companies of nationally recognized standing having comparable deductibles and providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect;
- (h) Shoppers Drug Mart shall not: (i) change in any material respect any of its methods of reporting income or deductions for accounting or income tax purposes from those employed in the preparation of its income tax return for the taxation year ending December 29, 2012 except as may be required by applicable Law; or (ii) make or revoke any material election relating to Taxes, other than any election that has yet to be made in respect of any event or circumstance occurring prior to the date of the Agreement; or (iii) settle, compromise or agree to the entry of judgment with respect to any proceeding relating to Taxes except for any settlement, compromise or agreement that is not materially detrimental to Shoppers Drug Mart taking into account any reserves made in relation to such Taxes as reflected on the Shoppers Drug Mart Financial Statements; or (iv) enter into any Tax sharing, Tax allocation or Tax indemnification agreement; or (v) make a request for a Tax ruling to any Governmental Entity; and
- (i) Shoppers Drug Mart shall not agree, resolve or commit to do any of the foregoing.

Nothing in this Agreement is intended to or shall result in Loblaw exercising material influence over the operations of Shoppers Drug Mart, particularly in relation to operations in which the Parties compete or would compete, but for this Agreement, with each other, prior to the Effective Date.

5.2 Conduct of Business by Loblaw

Loblaw covenants and agrees that during the period from the date of this Agreement until the earlier of the Effective Date and the time that this Agreement is terminated in accordance with its terms, unless otherwise: (i) agreed to in writing by Shoppers Drug Mart (such agreement to be subject to applicable Law and not be unreasonably withheld, conditioned or delayed); or (ii) required or expressly permitted or specifically contemplated by this Agreement or the Arrangement (including for greater certainty pursuant to Section 5.5 of this Agreement and any steps taken pursuant to Sections 5.3(a) and 5.8 of this Agreement to obtain any required regulatory approvals):

- (a) the business of Loblaw and its Subsidiaries shall be conducted only in, and Loblaw and its Subsidiaries shall not take any action except in, the ordinary course of business and consistent with past practice, and Loblaw shall use all commercially reasonable efforts to maintain and preserve its and their business organization, assets, employees and advantageous business relationships;
- (b) Loblaw shall not: (i) amend its constating documents; or (ii) declare, set aside or pay any dividend or other distribution or payment in cash, shares or property in respect of its shares owned by any Person, except regular quarterly dividends to holders of Loblaw Shares in an amount not to exceed \$0.24 per Loblaw Share and regular quarterly dividends to holders of preferred shares of Loblaw; or (iii) except in relation to internal transactions solely involving Loblaw and its wholly-owned Subsidiaries or solely among such Subsidiaries, and except in connection with the GWL Private Placement (provided the GWL Private Placement has no negative effect on the ability of GWL to vote all of the Loblaw Shares that it holds at the Loblaw Shareholder Meeting) issue, grant, sell or pledge or agree to issue, grant, sell or pledge any common shares of Loblaw or any of its Subsidiaries, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, common shares of Loblaw or any of its Subsidiaries, other than Loblaw Shares issuable pursuant to the terms of outstanding Loblaw Options and convertible securities and other than option grants in the ordinary course of business consistent with past practice; or (iv) except in normal course or open market purchases or offers to purchase at market, redeem, purchase or otherwise acquire any of its outstanding shares or other securities; or (v) split or consolidate any Loblaw Shares; or (vi) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or reorganization; or (vii) enter into, modify or terminate any contract, agreement, commitment or arrangement with respect to any of the foregoing, except as permitted above, other than, in each case, in relation to any internal transaction solely involving Loblaw and its wholly-owned Subsidiaries (including for greater certainty any joint venture, or partnership solely among Loblaw and any of its wholly-owned Subsidiaries or solely among any such Subsidiaries or any trust settled solely for the benefit of any of the foregoing entities or any combination thereof) or, in the case of any purchase of Loblaw Shares, in normal course or open market purchases;

- (c) Loblaw shall not, and shall not permit any of its Subsidiaries to, directly or indirectly: (i) sell, pledge, dispose of or encumber any assets of Loblaw or any of its Subsidiaries with a value individually or in the aggregate exceeding \$1 billion (other than the sale of accounts receivable) and property dispositions to Choice Properties Real Estate Investment Trust and Choice Properties Limited Partnership or any of their respective Subsidiaries; (ii) acquire (by merger, amalgamation, consolidation or acquisition of shares or assets) any corporation, partnership or other business organization or division thereof or make any investment either by purchase of shares or securities, contributions of capital (other than to wholly-owned Subsidiaries) or purchase of any property or assets of any other individual or entity with a value individually or in the aggregate exceeding \$1 billion; (iii) incur any indebtedness for borrowed money or any other liability or obligation or issue any debt securities or assume, guarantee, endorse or otherwise as an accommodation become responsible for, the obligations of any other individual or entity, or make any loans or advances, except in the ordinary course of business consistent with past practice, for refinancing existing debt on commercially reasonable terms given market conditions at the applicable time, to fund the cash component of the Consideration or in relation to internal transactions solely involving Loblaw and its wholly-owned Subsidiaries or solely among such Subsidiaries; (iv) pay, discharge or satisfy any claims, liabilities or obligations (including any regulatory investigation) which are material to the business of Loblaw, other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice, of liabilities which are referenced or reserved against in Loblaw's most recently publicly available financial statements as of the date hereof or incurred in the ordinary course of business consistent with past practice; (v) release or relinquish, or authorize or propose to do so, any contractual right which is material to the business of Loblaw; (vi) enter into any license, lease, contract or other document which is material to the business of Loblaw or waive, release, grant or transfer any rights of value or modify or change any existing license, lease, contract or other document which is material to the business of Loblaw, other than in the ordinary course of business consistent with past practice; (vii) enter into or terminate any hedges, swaps or other financial instruments or like transaction, other than in the ordinary course of business consistent with past practice; or (viii) authorize or propose any of the foregoing, or enter into or modify any contract, agreement, commitment or arrangement to do any of the foregoing, other than, in each case, in relation to any internal transaction solely involving Loblaw and its wholly-owned Subsidiaries (including for greater certainty any joint venture, or partnership solely among Loblaw and any of its wholly-owned Subsidiaries or solely among any such Subsidiaries or any trust settled solely for the benefit of any of the foregoing entities or any combination thereof) or in connection with the repayment, refinancing or replacement of Loblaw's existing credit facilities; and
- (d) Loblaw shall not agree, resolve or commit to do any of the foregoing.

Nothing in this Agreement is intended to or shall result in Shoppers Drug Mart exercising material influence over the operations of Loblaw, particularly in relation to operations in which the Parties compete or would compete, but for this Agreement, with each other, prior to the Effective Date.

5.3 Mutual Covenants

Each of the Parties covenants and agrees that, except as contemplated in this Agreement or the Arrangement, and without limiting Loblaw's obligations under Section 5.8, during the period from the date of this Agreement until the earlier of the Effective Date and the time that this Agreement is terminated in accordance with its terms:

- (a) it shall use its reasonable commercial efforts to, and shall cause its Subsidiaries to use all reasonable commercial efforts to, satisfy (or cause the satisfaction of) the conditions precedent to its obligations hereunder as set forth in Article VI to the extent the same is within its control and to take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under all applicable Laws to complete the Arrangement, including using its reasonable commercial efforts to promptly: (i) obtain all necessary waivers, consents and approvals required to be obtained by it from parties to loan agreements, leases and other contracts; (ii) obtain all necessary exemptions, consents, approvals and authorizations as are required to be obtained by it under all applicable Laws; (iii) effect all necessary registrations and filings and submissions of information requested by Governmental Entities required to be effected by it in connection with the Arrangement; (iv) fulfill all conditions and satisfy all provisions of this Agreement and the Arrangement, including delivery of the certificates of their respective officers contemplated by Section 6.2 and Section 6.3; and (v) co-operate with the other Party in connection with the performance by it and its Subsidiaries of their obligations hereunder;
- (b) it shall not take any action, refrain from taking any action, or permit any action to be taken or not taken, which is inconsistent with this Agreement or which would reasonably be expected to significantly impede the consummation of the Arrangement or the transactions contemplated herein;
- (c) except for non-substantive communications with securityholders, and subject to its obligations under Section 2.14, it shall furnish promptly to the other Party or its counsel, a copy of each notice, report, schedule or other document delivered, filed or received by it in connection with: (i) the Arrangement; (ii) any filings under applicable Laws in connection with the transactions contemplated herein; and (iii) any dealings with Governmental Entities in connection with the transactions contemplated herein;
- (d) it will conduct itself so as to keep the other Party fully informed as to the material decisions or actions required or required to be made with respect to the operation of its business; provided that such disclosure is not otherwise prohibited by reason of a confidentiality obligation owed to a third party or otherwise prevented by applicable Law or is competitively sensitive information;
- (e) it shall promptly notify the other Party in writing of any material change (actual, anticipated, contemplated or, to the knowledge of such Party, threatened) in its business, operations, affairs, assets, capitalization, financial condition, prospects, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, or of any Governmental Entity or third party complaints, investigations or hearings (or communications indicating that the same may be contemplated), or of any change in any representation or warranty provided by such Party in this Agreement which

change is or may be of such a nature to render any representation or warranty misleading or untrue in any material respect, and it shall in good faith discuss with the other Party any change in circumstances (actual, anticipated, contemplated, or to the knowledge of such Party, threatened) which is of such a nature that there may be a reasonable question as to whether notice need to be given to the other Party pursuant to this provision;

- (f) it shall not settle or compromise any claim brought by any present, former or purported holder of its securities in connection with the transactions contemplated herein or the Arrangement prior to the Effective Date without the prior written consent of the other Party, which consent shall not be unreasonably withheld, conditioned or delayed; and
- (g) it shall use its commercially reasonable efforts to conduct its affairs so that all of its representations and warranties contained herein shall be true and correct on and as of the Effective Date as if made thereon, provided that any representation and warranty not qualified by materiality shall be true and correct in all material respects.

5.4 Supplemental Listing Application

As soon as reasonably practicable, Loblaw shall apply to list the Loblaw Shares issuable pursuant to the Arrangement and upon the exercise of the Replacement Options on the TSX and shall use its commercially reasonable efforts to obtain approval, subject to customary conditions, for the listing of such Loblaw Shares on the TSX.

5.5 Pre-Arrangement Reorganizations

- (a) Shoppers Drug Mart acknowledges and agrees that, in contemplation of the Arrangement, it shall, and shall cause each of its Subsidiaries to, cooperate with Loblaw in structuring, planning and implementing any reorganization of Shoppers Drug Mart's or its Subsidiaries' business, operations and assets as Loblaw may reasonably require (each, a "**Pre-Arrangement Reorganization**") and cooperate with Loblaw and its advisors to determine the nature of the Pre-Arrangement Reorganization that might be undertaken and the manner in which it most effectively could be undertaken; provided that: (i) such requested cooperation does not unreasonably nor materially interfere with the ongoing operations of Shoppers Drug Mart and its Subsidiaries; (ii) Loblaw shall provide Shoppers Drug Mart with written notice of any proposed Pre-Arrangement Reorganization at least 30 days prior to the Effective Time; (iii) such Pre-Arrangement Reorganization is not, in the opinion of Shoppers Drug Mart or Shoppers Drug Mart's counsel, acting reasonably, prejudicial to the Shoppers Drug Mart Shareholders, holders of Shoppers Drug Mart Options, Shoppers Drug Mart RSUs or Shoppers Drug Mart DSUs, Shoppers Drug Mart or any of its Subsidiaries; (iv) such Pre-Arrangement Reorganization shall not impede, delay or prevent the receipt of any governmental and third party approvals and consents or the satisfaction of any other conditions set forth in Article VI; (v) such Pre-Arrangement Reorganization shall not impede, delay or prevent the consummation of the Arrangement; (vi) such Pre-Arrangement Reorganization shall not require Shoppers Drug Mart to obtain the approval of the Shoppers Drug Mart Shareholders; (vii) Loblaw shall pay all of the cooperation and implementation costs and all direct or indirect costs and liabilities, fees, damages, penalties and Taxes that may be incurred as a consequence of the implementation of or to unwind any such

reorganization if the Arrangement is not completed, including actual out-of-pocket costs and expenses for filing fees and external counsel and auditors which may be incurred; (viii) such requested cooperation does not require the directors, officers, employees or agents of Shoppers Drug Mart or its Subsidiaries to take any action in any capacity other than as a director, officer or employee; and (ix) the planning for and implementation of any Pre-Arrangement Reorganization shall not be considered a breach of any covenant hereunder and shall not be considered in determining whether the representations, warranties or covenants of Shoppers Drug Mart hereunder have been breached.

- (b) The Parties shall seek to have any Pre-Arrangement Reorganization that is to be effective before the Effective Time made effective as of the last moment of the day ending immediately prior to the Effective Date (but after Loblaw shall have irrevocably waived or confirmed that all conditions under Section 6.1 and Section 6.2 have been satisfied); provided that no Pre-Arrangement Reorganization will be made effective unless: (i) it is reasonably certain, after consulting with Shoppers Drug Mart, that the Arrangement will become effective; or (ii) such Pre-Arrangement Reorganization can be reversed or unwound without adversely affecting the Shoppers Drug Mart Shareholders, holders of Shoppers Drug Mart Options, Shoppers Drug Mart DSUs or Shoppers Drug Mart RSUs, Shoppers Drug Mart or any of its Subsidiaries in the event the Arrangement does not become effective and this Agreement is terminated; or (iii) Shoppers Drug Mart otherwise reasonably agrees.
- (c) The obligation of Loblaw to reimburse Shoppers Drug Mart for fees and expenses and be responsible for costs as set out in this Section 5.5 will be in addition to any other payment Loblaw may be obligated to make hereunder and will survive termination of this Agreement. The completion of a Pre-Arrangement Reorganization shall not be a condition to the consummation of the Arrangement. If Loblaw does not complete the Arrangement for any reason, and without prejudice to any other remedy of Shoppers Drug Mart, Loblaw shall indemnify Shoppers Drug Mart for all losses and reasonable costs and expenses, including reasonable legal fees and disbursements, incurred in connection with or resulting from any Pre-Arrangement Reorganizations and in connection with or resulting from reversing or unwinding any Pre-Arrangement Reorganizations.

5.6 Financing Arrangements

Loblaw shall, and shall cause its Subsidiaries to, take all actions, and do, or cause to be done, all things necessary to arrange the Loblaw Debt Financing on the terms and conditions described in the Loblaw Commitment Letter, including: (i) maintaining in effect the Loblaw Commitment Letter or equivalent financing arrangements; (ii) satisfying on a timely basis all conditions applicable to Loblaw obtaining the Loblaw Debt Financing set forth in the Loblaw Commitment Letter that are within its control; (iii) entering into definitive agreements with respect thereto on the terms and conditions contemplated by the Loblaw Commitment Letter or on other terms acceptable to Loblaw, in its sole discretion, that would not adversely impact the ability or likelihood of Loblaw to consummate the transactions contemplated hereby; (iv) enforcing the obligations of the lenders under the Loblaw Commitment Letter, including causing its financing sources to fund the aggregate cash component of the Consideration on the Effective Date; (v) keeping Shoppers Drug Mart reasonably apprised of any significant changes in Loblaw's financing arrangements; (iv) advise Shoppers Drug Mart of any cancellation of any portion of the commitments under the Loblaw Debt Commitment Letter and its plan for replacing the financing under such cancelled portion; and (vii) subject to the

satisfaction or waiver of the conditions set forth herein, consummate the Loblaw Debt Financing at or prior to the Effective Date.

5.7 Financing Assistance

- (a) Shoppers Drug Mart shall, and shall cause its Subsidiaries to, and shall use its commercially reasonable efforts to have its and its Subsidiaries' Representatives, provide such cooperation to Loblaw as Loblaw may reasonably request in connection with the arrangements by Loblaw to obtain new or amend any existing credit facilities or issue securities publicly or privately, subject to the terms hereof (provided that: (A) such request is made on reasonable notice; (B) such cooperation does not unreasonably interfere with the ongoing operations of Shoppers Drug Mart and its Subsidiaries or unreasonably interfere with or hinder or delay the performance by Shoppers Drug Mart or its Subsidiaries of their obligations hereunder; (C) Shoppers Drug Mart shall not be required to provide, or cause any of its Subsidiaries to provide, cooperation that involves any binding commitment by Shoppers Drug Mart or its Subsidiaries, which commitment is not conditional on the completion of the Arrangement and does not terminate without liability to Shoppers Drug Mart or its Subsidiaries upon the termination of this Agreement; and (D) any actions taken hereunder are in compliance with Section 5.1), including:
 - (i) participating in meetings (including meetings with rating agencies), drafting sessions and due diligence sessions;
 - (ii) furnishing Loblaw and its proposed lenders with such financial and other pertinent information regarding itself as may be reasonably requested by Loblaw;
 - (iii) assisting Loblaw and its lenders or underwriters (upon delivering a signed non-disclosure undertakings in customary form, where applicable) in the preparation of, and providing Loblaw a written authorization for the release of information in: (A) necessary, customary or advisable offering materials (including prospectuses, offering memoranda, and road show materials) for any debt raised or securities issued prior to the Effective Date or the termination of this Agreement; and (B) necessary, customary or advisable materials for rating agency presentations;
 - (iv) cooperating with Loblaw in connection with applications to obtain such consents, approvals or authorizations which may be reasonably necessary or desirable in connection with such financing;
 - (v) using its commercially reasonable efforts to obtain customary accountants' comfort letters and legal opinions and other documentation and items relating to such debt financing or securities issue as reasonably requested by Loblaw and, if requested by Loblaw, to cooperate with and assist it in obtaining such documentation and items;
 - (vi) executing and delivering, to be effective as of the Effective Time, any certificates, legal opinions or documents, as may be reasonably requested by Loblaw (including a certificate of the Executive Vice-President and Chief Financial Officer of Shoppers Drug Mart or any of its Subsidiaries with

respect to solvency matters and consents of accountants for use of their reports in any materials relating to such debt financing or securities issue);

- (vii) taking all corporate actions, to be effective at the Effective Time, requested by Loblaw that are necessary or customary to permit the consummation of such financing.
- (b) Notwithstanding Section 5.7(a), neither Shoppers Drug Mart nor any of its Subsidiaries shall be required by Loblaw to: (i) pay any commitment, consent or other similar fee or incur any other liability in connection with any such financing prior to the Effective Time; or (ii) take any action or do anything that would: (A) contravene any applicable Law; or (B) contravene any of its or any of its Subsidiaries' agreements that relates to borrowed money; or (C) be capable of impairing or preventing the satisfaction of any condition set forth in Article VI; or (iii) commit to take any action that is not contingent on the consummation of the transactions contemplated herein at the Effective Time; or (iv) except as required to comply with applicable Laws, disclose any information that in the reasonable judgment of Shoppers Drug Mart would result in the disclosure of any trade secrets or similar information or violate any obligations of Shoppers Drug Mart or any other Person with respect to confidentiality.
- (c) Loblaw shall promptly upon request by Shoppers Drug Mart and from time to time reimburse Shoppers Drug Mart and its Subsidiaries for all reasonable out-of-pocket costs (including legal fees) incurred by Shoppers Drug Mart or its Subsidiaries and their Representatives in connection with any of the actions contemplated by this Section 5.7, including, if this Agreement is terminated by Shoppers Drug Mart (other than pursuant to Section 8.1(g)) in accordance with its terms, in connection with any unwinding or similar transactions by Shoppers Drug Mart or its Subsidiaries required as a result of actions taken pursuant to this Section 5.7.

5.8 Competition Act Matters

- (a) Within 60 days of the date of this Agreement or such other date as the Parties may agree, Loblaw and Shoppers Drug Mart shall each make a premerger notification filing in respect of the Arrangement with the Commissioner in accordance with Part IX of the Competition Act, and shall provide to the Commissioner at the earliest practicable date all additional information, documents or other materials that may be requested by the Commissioner in connection with his review of the Arrangement. Without limiting the generality of the foregoing, in the event that Loblaw and/or Shoppers Drug Mart receive a supplementary information request pursuant to subsection 114(2) of the Competition Act (“SIR”) in connection with the Arrangement, Loblaw and/or Shoppers Drug Mart, as applicable, shall use its best efforts to respond to the SIR as soon as possible, and in any event, no later than 75 days after receiving the SIR. For purposes of this provision, Loblaw and/or Shoppers Drug Mart, as applicable, shall be deemed to have responded to any such SIR by providing a response that it in good faith believes to be in compliance and by certifying its compliance pursuant to section 118 of the Competition Act within the 75 day period. In the event that the Commissioner disputes the adequacy of compliance by Loblaw and/or Shoppers Drug Mart, as applicable, with respect to a SIR, Loblaw and/or Shoppers Drug Mart, as applicable, shall endeavour to satisfy the Commissioner as soon as possible so as to minimize any delay in the conduct or

resolution of the investigation. Loblaw shall be responsible for the payment of the premerger notification filing fee.

- (b) Within 60 days of the date of this Agreement or such other date as the Parties may agree, Loblaw shall submit to the Commissioner a request for an ARC. Shoppers Drug Mart shall cooperate with Loblaw in connection with preparing such request including by way of furnishing to Loblaw or its legal counsel such information as may be reasonably requested by Loblaw or its legal counsel in connection with the preparation of such request; provided that if Shoppers Drug Mart is required to provide information to Loblaw that Shoppers Drug Mart deems to be competitively sensitive information (or otherwise reasonably determines in respect thereof that disclosure should be restricted), Shoppers Drug Mart may restrict the provision of such information to Loblaw's external legal counsel.
- (c) Loblaw and Shoppers Drug Mart shall consult and cooperate with each other in connection with the effort to obtain Competition Act Approval. Without limiting the generality of the foregoing, (i) Shoppers Drug Mart and its legal counsel shall be given a reasonable opportunity to review and comment on any proposed submissions to the Commissioner, and reasonable consideration shall be given to any comments made by Shoppers Drug Mart and its legal counsel; (ii) each Party shall promptly notify the other Party of any communication from the Commissioner and shall permit the other Party or its legal counsel, as appropriate, to review in advance any proposed communication with the Commissioner; (iii) neither Party shall participate in any meeting with the Commissioner in connection with his review of the Arrangement unless it consults with the other Party in advance and, to the extent permitted by the Commissioner, provides the other Party the opportunity to attend and participate thereat; and (iv) neither Loblaw nor Shoppers Drug Mart will take any action that would have the effect of delaying, impairing or impeding the receipt of Competition Act Approval.
- (d) Loblaw shall use its best efforts to obtain Competition Act Approval as soon as reasonably practicable but, in any event, no later than the Outside Date. For purposes of the foregoing, "best efforts" shall include, without limitation, proposing, negotiating, agreeing to and effecting, by undertaking, consent agreement, hold separate agreement or otherwise: (i) the sale, divestiture, licensing or disposition of all or any part of the businesses or assets of Loblaw or Shoppers Drug Mart; (ii) the termination of any existing contractual rights, relationships and obligations, or entry into or amendment of any licensing arrangements; (iii) the taking of any action that, after consummation of the Arrangement, would limit the freedom of action of, or impose any other requirement on, Loblaw with respect to the operation of one or more of the businesses, or the assets, of Loblaw or Shoppers Drug Mart; and (iv) any other remedial action whatsoever that may be necessary in order to obtain Competition Act Approval prior to the Outside Date, provided that any such action is conditioned upon the completion of the Arrangement. Loblaw shall further use its best efforts to avoid, oppose, or seek to have lifted or rescinded, any application for, or any resulting injunction or restraining or other order seeking to stop, or that otherwise adversely affects its ability to consummate, the Arrangement contemplated by this Agreement.
- (e) Loblaw shall keep Shoppers Drug Mart and its legal counsel informed as to the status of the proceedings related to obtaining Competition Act Approval.

5.9 Proxies Received, Dissent Notices and Securityholder Lists

- (a) Shoppers Drug Mart shall advise Loblaw as reasonably requested, and on a daily basis on each of the last seven business days prior to the Shoppers Drug Mart Shareholders' Meeting, as to the aggregate tally of the proxies and votes received in respect of such meeting and all matters to be considered at such meeting.
- (b) Shoppers Drug Mart shall promptly advise Loblaw of any written notice of dissent, withdrawal of such notice, and any other notice received pursuant to the exercise of Dissent Rights.
- (c) At the request of Loblaw from time to time, Shoppers Drug Mart shall provide Loblaw with: (i) a list of the registered Shoppers Drug Mart Shareholders, together with their addresses and respective holdings of Shoppers Drug Mart Shares; (ii) a list of the holders of Shoppers Drug Mart Options, Shoppers Drug Mart DSUs and Shoppers Drug Mart RSUs, together with their addresses and respective holdings of Shoppers Drug Mart Options, Shoppers Drug Mart DSUs and Shoppers Drug Mart RSUs; and/or (iii) a list of participants and book-based nominee registrants such as CDS & Co., CEDE & Co. and DTC, and non-objecting beneficial owners of Shoppers Drug Mart Shares, together with their addresses and respective holdings of Shoppers Drug Mart Shares. Shoppers Drug Mart shall from time to time require that its registrar and transfer agent furnish Loblaw with such additional information, including updated or additional lists of Shoppers Drug Mart Shareholders, and lists of securities positions and other assistance as Loblaw may reasonably request in order to be able to communicate with the Shoppers Drug Mart Shareholders with respect to the Arrangement.

5.10 Equity-Based Compensation Plans

- (a) Subject to Section 5.10(c) and to the receipt of the approval of the TSX, Shoppers Drug Mart will cause prior to the Effective Time the following to occur:
 - (i) each outstanding Shoppers Drug Mart RSU that is vested or will vest in accordance with its terms at the Effective Time ("**Vested Shoppers Drug Mart RSU**") shall, without any act or formality on the part of the holder thereof, be disposed of and surrendered by the holder thereof, to Loblaw in exchange for a cash payment (net of any applicable withholdings) equal to (A) the number of Shoppers Drug Mart Shares subject to the Vested Shoppers Drug Mart RSU immediately prior to the Effective Time, multiplied by (B) the fair market value of a Shoppers Drug Mart Share immediately prior to the Effective Time determined in accordance with the terms of the Shoppers Drug Mart RSU Plans, as applicable;
 - (ii) each Shoppers Drug Mart Share Award other than a Vested Shoppers Drug Mart RSU outstanding at the Effective Time ("**Unvested Shoppers Drug Mart Share Award**") shall be continued on the same terms and conditions as were applicable immediately prior to the Effective Time, except that, pursuant to the terms of the Shoppers Drug Mart RSU Plans, the Shoppers Drug Mart DSU Plan and the Shoppers Drug Mart CEO DSU Plan, as applicable, the terms of such Unvested Shoppers Drug Mart Share Awards shall be amended so as to substitute for the Shoppers Drug Mart Shares

subject to such Unvested Shoppers Drug Mart Share Awards such number of Loblaw Shares equal to (A) the number of Shoppers Drug Mart Shares subject to the Unvested Shoppers Drug Mart Share Awards immediately prior to the Effective Time, multiplied by (B) the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares; and

- (iii) each Shoppers Drug Mart Option outstanding at the Effective Time (whether vested or unvested) will be exchanged for a Replacement Option to acquire, on the same terms and conditions as were applicable under such Shoppers Drug Mart Option immediately prior to the Effective Time, such number of Loblaw Shares as is equal to (A) that number of Shoppers Drug Mart Shares that were issuable upon exercise of such Shoppers Drug Mart Option immediately prior to the Effective Time, multiplied by (B) the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares, at an exercise price per Loblaw Share equal to the greater of the quotient determined by dividing (X) the exercise price per Shoppers Drug Mart Share at which such Shoppers Drug Mart Option was exercisable immediately prior to the Effective Time, by (Y) the Exchange Ratio, rounded up to the nearest whole cent, and such minimum amount that meets the requirements of paragraph 7(1.4)(c) of the Tax Act.
- (b) Pursuant to the Shoppers Drug Mart Incentive Compensation Plans, as applicable, Shoppers Drug Mart may facilitate the acceleration of the vesting of any unvested Shoppers Drug Mart Options subject to accelerated vesting on a change of control of Shoppers Drug Mart as may be necessary or desirable to allow all persons holding Shoppers Drug Mart Options to exercise such Shoppers Drug Mart Options for the purpose of participating in the Arrangement. In addition, Shoppers Drug Mart shall be permitted to enable fully vested and accelerated vested Shoppers Drug Mart Options to be exercised by “cashless exercise” whereby the holder of any such Shoppers Drug Mart Options, in lieu of tendering such Shoppers Drug Mart Option exercise price for the underlying Shoppers Drug Mart Shares, elects to receive an amount per Shoppers Drug Mart Option equal to the difference between the exercise price of the Shoppers Drug Mart Option and the price at which a securities dealer as designated by Shoppers Drug Mart is able to sell the underlying Shoppers Drug Mart Shares in the capital markets, or pursuant to daylight loan transactions facilitated by Shoppers Drug Mart or otherwise in any other manner approved by the board of directors of Shoppers Drug Mart and as permitted by the applicable Shoppers Drug Mart Incentive Compensation Plans.
- (c) Loblaw may request and, if so requested, Shoppers Drug Mart shall make amendments to the Shoppers Drug Mart Incentive Compensation Plans other than those provided for in Section 5.10(a), provided such amendments are on economic, tax and other terms and conditions having consequences to the holders of Shoppers Drug Mart RSUs, Shoppers Drug Mart DSUs and Shoppers Drug Mart Options, as the case may be, that are equivalent to or better than those provided for in Section 5.10(a).
- (d) Shoppers Drug Mart shall amend the Shoppers Drug Mart Share Plans and the Shoppers Drug Mart RSU Plans to accelerate the vesting of those awards that remain unvested in accordance with their terms immediately following the Effective Time so

as to enable such vesting to occur on the earlier of: (a) 24 months following the completion of the Arrangement; and (b) December 1, 2015.

- (e) Loblaw will take all steps necessary in order to ensure that the Loblaw Shares issuable upon the exercise of the Replacement Options be freely tradable by the holders thereof.

5.11 Section 85 Elections

Loblaw shall make joint elections with Eligible Holders in respect of the disposition of their Shoppers Drug Mart Shares for the Share Consideration pursuant to Section 85 of the Tax Act (or any similar provision of any provincial tax legislation) in accordance with the procedures and within the time limits set out in the Plan of Arrangement. The agreed amount under such joint elections shall be determined by each Eligible Holder in his or her sole discretion within the limits set out in the Tax Act.

5.12 Coordination of Dividends

From the date of this Agreement until the Effective Time, Loblaw and Shoppers Drug Mart shall coordinate with each other regarding the declaration and payment of dividends in respect of the Loblaw Shares and the Shoppers Drug Mart Shares and the record dates and payment dates relating thereto, it being the intention of the Parties that holders of Loblaw Shares and Shoppers Drug Mart Shares shall not receive two dividends, or fail to receive one dividend, for any single calendar quarter, including the quarter in which the Effective Time occurs, with respect to their Loblaw Shares or their Shoppers Drug Mart Shares, as the case may be.

ARTICLE VI CONDITIONS

6.1 Mutual Conditions

The respective obligations of the Parties to consummate the transactions contemplated herein are subject to the satisfaction, on or before the Effective Date or such other time specified, of the following conditions, any of which may be waived by the mutual consent of such Parties without prejudice to their right to rely on any other of such conditions:

- (a) the Interim Order shall have been granted on terms consistent with this Agreement and the Interim Order shall not have been set aside or modified in a manner unacceptable to either Party, acting reasonably, on appeal or otherwise;
- (b) the Loblaw Shareholder Approval shall have been obtained;
- (c) the Shoppers Drug Mart Arrangement Resolution shall have been passed by the Shoppers Drug Mart Shareholders in accordance with the Interim Order;
- (d) the Final Order shall have been granted on terms consistent with this Agreement and the Final Order shall not have been set aside or modified in a manner unacceptable to either of the Parties, acting reasonably, on appeal or otherwise;

- (e) the Articles of Arrangement to be filed with the Director in accordance with this Agreement shall be in form and substance acceptable to each of the Parties, acting reasonably;
- (f) Competition Act Approval shall have been obtained;
- (g) in addition to Competition Act Approval, all other domestic and foreign regulatory (including any Laws that regulate competition, antitrust, foreign investment, food and drugs or pharmacy), governmental and third party approvals and consents required to be obtained, or that the Parties mutually agree in writing to obtain in respect of the completion of the Arrangement shall have been obtained on terms and conditions acceptable to the Parties, each acting reasonably, and all applicable domestic and foreign statutory and regulatory waiting periods shall have expired or have been terminated and no unresolved material objection or opposition shall have been filed, initiated or made during any applicable statutory or regulatory period, except, in each case where the failure or failures to obtain such approvals or consents, or for the applicable waiting periods to have expired or terminated, would not be reasonably expected to have a Material Adverse Effect in respect of either of Loblaw or Shoppers Drug Mart or upon the completion of the Arrangement;
- (h) the Loblaw Shares issuable pursuant to the Arrangement and upon the exercise of the Replacement Options shall, subject to customary conditions, have been approved for listing on the TSX; and
- (i) no act, action, suit, proceeding, objection or opposition shall have been taken, entered or promulgated before or by any Governmental Entity (other than in relation to Competition Act Approval) or by any elected or appointed public official or private person in Canada or elsewhere and no Law, regulation, policy, judgment, decision, order, ruling or directive shall have been proposed, enacted, promulgated, amended or applied, which would be reasonably expected to result in a Material Adverse Effect in respect of Loblaw or Shoppers Drug Mart.

6.2 Loblaw Conditions

The obligation of Loblaw to consummate the transactions contemplated herein, and in particular the Arrangement, is subject to the satisfaction, on or before the Effective Date or such other time specified, of the following conditions:

- (a) the representations and warranties made by Shoppers Drug Mart in this Agreement shall be true and correct as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date or except as affected by transactions contemplated or permitted by this Agreement), except where the failure of such representations and warranties to be true and correct (read as though such representations and warranties omit exceptions for failures that do not have or result in Material Adverse Effect), individually or in the aggregate, would not result or would not reasonably be expected to result in a Material Adverse Effect and Shoppers Drug Mart shall have provided to Loblaw a certificate of two senior officers of Shoppers Drug Mart certifying the foregoing on the Effective Date;
- (b) Shoppers Drug Mart shall have complied in all material respects with its covenants herein and Shoppers Drug Mart shall have provided to Loblaw a certificate of two

senior officers of Shoppers Drug Mart certifying compliance with such covenants on the Effective Date;

- (c) no Material Adverse Change in respect of Shoppers Drug Mart shall have occurred after the date hereof and prior to the Effective Date; and
- (d) holders of no more than 10% of all of the issued and outstanding Shoppers Drug Mart Shares shall have validly exercised Dissent Rights (and shall not have withdrawn such rights) in respect of the Arrangement.

The conditions in this Section 6.2 are for the exclusive benefit of Loblaw and may be asserted by Loblaw regardless of the circumstances or may be waived in writing by Loblaw in its sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Loblaw may have.

6.3 Shoppers Drug Mart Conditions

The obligation of Shoppers Drug Mart to consummate the transactions contemplated herein, and in particular the Arrangement, is subject to the satisfaction, on or before the Effective Date or such other time specified, of the following conditions:

- (a) the representations and warranties made by Loblaw in this Agreement shall be true and correct as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date or except as affected by transactions contemplated or permitted by this Agreement), except where the failure of such representations and warranties to be true and correct (read as though such representations and warranties omit exceptions for failures that do not have or result in Material Adverse Effect), individually or in the aggregate, would not result or would not reasonably be expected to result in a Material Adverse Effect and Loblaw shall have provided to Shoppers Drug Mart a certificate of two senior officers of Loblaw certifying the foregoing on the Effective Date;
- (b) Loblaw shall have complied in all material respects with its covenants herein and Loblaw shall have provided to Shoppers Drug Mart a certificate of two senior officers of Loblaw certifying compliance with such covenants on the Effective Date; and
- (c) no Material Adverse Change in respect of Loblaw shall have occurred after the date hereof and prior to the Effective Date.

The conditions in this Section 6.3 are for the exclusive benefit of Shoppers Drug Mart and may be asserted by Shoppers Drug Mart regardless of the circumstances or may be waived by Shoppers Drug Mart in its sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Shoppers Drug Mart may have.

6.4 Notice and Cure Provisions

Each Party will give prompt notice to the other of the occurrence, or failure to occur, at any time from the date hereof until the Effective Date, of any event or state of facts which occurrence or failure would, or would be likely to:

- (a) cause any of the representations or warranties of either Party contained herein to be untrue or inaccurate in any material respect on the date hereof or at the Effective Date; or
- (b) result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by either Party prior to or at the Effective Date.

Neither Loblaw nor Shoppers Drug Mart may elect to not complete the transactions contemplated hereby pursuant to the conditions contained in Sections 6.1, 6.2 and 6.3 or exercise any termination right arising therefrom under Section 8.1(e)(i) or Section 8.1(e)(ii) and no payments are payable as a result of such termination pursuant to Section 7.4 unless the Party intending to rely thereon has delivered a written notice to the other Party specifying in reasonable detail all breaches of covenants, inaccuracies of representations and warranties or other matters which the Party delivering such notice is asserting as the basis for the non-fulfillment of the applicable condition or the availability of a termination right, as the case may be. If any such notice is delivered with respect to a matter that is capable of being cured, provided that a Party is proceeding diligently to cure such matter, no Party may terminate this Agreement until the expiration of a period of: the earlier of (i) 10 business days from the date of receipt of such notice; and (ii) the number of days remaining prior to the Outside Date. If such notice has been delivered by Shoppers Drug Mart prior to the date of the Shoppers Drug Mart Shareholders' Meeting, Shoppers Drug Mart may elect to postpone such meeting until the expiry of such period (without causing a breach of any other provisions contained herein).

6.5 Merger of Conditions

Subject to applicable Law, the conditions set out in Sections 6.1, 6.2 and 6.3 shall be conclusively deemed to have been satisfied, waived or released upon the issuance of a Certificate in respect of the Arrangement.

ARTICLE VII ADDITIONAL AGREEMENTS

7.1 Covenant Regarding Non-Solicitation

- (a) Shoppers Drug Mart shall immediately cease and cause to be terminated all existing discussions and negotiations (including through any advisors or other parties on its behalf), if any, with any parties conducted before the date of this Agreement with respect to any Acquisition Proposal in respect of Shoppers Drug Mart and shall immediately request the return or destruction of all information respecting Shoppers Drug Mart provided to any third parties who have entered into a confidentiality agreement with Shoppers Drug Mart relating to an Acquisition Proposal in respect of Shoppers Drug Mart and shall use all commercially reasonable efforts to ensure that such requests are honoured.
- (b) Shoppers Drug Mart shall not, except as otherwise expressly provided in this Section 7.1(b), directly or indirectly, do or authorize or permit any of its Representatives to do, any of the following:
 - (i) solicit, knowingly facilitate, initiate or encourage any Acquisition Proposal in respect of Shoppers Drug Mart; or

- (ii) enter into or participate in any discussions or negotiations regarding an Acquisition Proposal, or furnish to any other Person any information with respect to its businesses, properties, operations, prospects or conditions (financial or otherwise) in connection with an Acquisition Proposal or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt of any other Person to do or seek to do any of the foregoing; or
- (iii) waive, or otherwise forbear in the enforcement of, or enter into or participate in any discussions, negotiations or agreements to waive or otherwise forbear in respect of, any rights or other benefits under confidential information agreements, including any “standstill provisions” thereunder, or any other standstill arrangements; or
- (iv) accept, recommend, approve or enter into an agreement to implement an Acquisition Proposal;

provided, however, that notwithstanding any other provision of this Agreement, Shoppers Drug Mart and its Representatives may prior to the approval of the Shoppers Drug Mart Arrangement Resolution at the Shoppers Drug Mart Shareholders’ Meeting:

- (v) enter into or participate in any discussions or negotiations with a third party who, without any breach of this Section 7.1 by Shoppers Drug Mart or its Representatives, seeks to initiate such discussions or negotiations and, subject to execution of a confidentiality agreement in favour of Shoppers Drug Mart substantially similar to the Confidentiality Agreement (provided that such confidentiality agreement shall provide for disclosure thereof (along with all information provided thereunder) to Loblaw as set out below), may furnish to such third party information concerning Shoppers Drug Mart and its business, properties and assets if, and only to the extent that the third party has first made a written *bona fide* Acquisition Proposal which the board of directors of Shoppers Drug Mart determines in good faith could reasonably be expected to lead to a Superior Proposal. For the purposes hereof, “**Superior Proposal**” means a written *bona fide* Acquisition Proposal made by a third party and in respect of which the board of directors of Shoppers Drug Mart determines in good faith: (1) that the funds or other consideration necessary to complete the Acquisition Proposal are or are reasonably likely to be available to fund completion of the Acquisition Proposal at the time and on the basis set out therein; (2) that is not subject to a due diligence and/or access condition; (3) that, after consultation with its financial advisor(s), would or would be reasonably likely to, if consummated in accordance with its terms, result in a transaction that is more favourable to the Shoppers Drug Mart Shareholders from a financial point of view than the Arrangement; (4) that, after consultation with its financial advisor(s) and outside counsel, is reasonably likely to be consummated at the time and on the terms proposed, taking into account all legal, financial, regulatory and other aspects of such Acquisition Proposal; and (5) after receiving the advice of outside counsel, that failure to recommend such Acquisition Proposal to the Shoppers Drug Mart Shareholders would be inconsistent with its fiduciary duties under applicable Laws;

- (vi) comply with OSC Rule 62-504 – *Take-Over Bids and Issuer Bids* and similar provisions under Canadian Securities Laws relating to the provision of directors’ circulars and make appropriate disclosure with respect thereto to its securityholders; and
 - (vii) accept, recommend, approve or enter into an agreement to implement a Superior Proposal from a third party, but only if prior to such acceptance, recommendation, approval or agreement: (A) the board of directors of Shoppers Drug Mart concludes in good faith, after considering all proposals to adjust the terms and conditions of this Agreement as contemplated by Section 7.1(d) and after receiving the advice of outside counsel that the failure to take such action would be inconsistent with its fiduciary duties under applicable Laws; (B) Shoppers Drug Mart complies with its obligations set forth in Section 7.1(d); and (C) Shoppers Drug Mart terminates this Agreement in accordance with Section 8.1(g), and concurrently therewith pays the amount required by Section 7.2 to Loblaw.
- (c) Shoppers Drug Mart shall forthwith provide notice to Loblaw of any Acquisition Proposal or any proposal, inquiry or offer that could lead to an Acquisition Proposal or any amendments to the foregoing or any request for non-public information relating to it or any of its Subsidiaries in connection with such an Acquisition Proposal or for access to the properties, books or records of Shoppers Drug Mart or any of its Subsidiaries by any Person that informs Shoppers Drug Mart, any member of Shoppers Drug Mart’s board of directors, or any of Shoppers Drug Mart’s Subsidiaries that it is considering making, or has made, an Acquisition Proposal. Such notice to Loblaw shall be made, from time to time, at first forthwith orally and then promptly (and in any event within 24 hours) in writing and shall indicate the identity of the Person or Persons making the proposal, inquiry, offer or request (which written notice shall include a copy of any such proposal (and any amendments or supplements thereto)) and if not previously provided to Loblaw, make available copies of all information provided to the third party. Shoppers Drug Mart shall keep Loblaw informed of the status and details of any such inquiry, offer or proposal and answer Loblaw’s reasonable questions with respect thereto.
- (d) If Shoppers Drug Mart receives an Acquisition Proposal that it determines is a Superior Proposal, it shall give Loblaw, orally and in writing, at least five days advance notice of any decision by the board of directors of Shoppers Drug Mart to accept, recommend, approve or enter into an agreement to implement the Acquisition Proposal, which notice shall confirm that Shoppers Drug Mart’s board of directors has determined that such Acquisition Proposal constitutes a Superior Proposal, shall identify the third party making the Acquisition Proposal and shall provide a true and complete copy thereof and any amendments thereto. During such five day period, Shoppers Drug Mart agrees not to accept, recommend, approve or enter into any agreement to implement such Acquisition Proposal and not to release the party making the Acquisition Proposal from any standstill provisions and shall not withdraw, redefine, modify or change its recommendation in respect of the Arrangement. In addition, during such five day period Shoppers Drug Mart shall, and shall cause its financial and legal advisors to, if requested by Loblaw, negotiate in good faith with Loblaw and its financial and legal advisors to make such adjustments in the terms and conditions of this Agreement and the Arrangement as would enable Shoppers Drug Mart to proceed with the Arrangement as amended rather than the

Acquisition Proposal. In the event Loblaw proposes to amend this Agreement and the Arrangement on a basis such that the board of directors of Shoppers Drug Mart determines that the Acquisition Proposal is no longer a Superior Proposal and so advises the board of directors of Loblaw prior to the expiry of such period, the board of directors of Shoppers Drug Mart shall not accept, recommend, approve or enter into any agreement to implement such Acquisition Proposal and shall not release the party making the Acquisition Proposal from any standstill provisions and shall not withdraw, redefine, modify or change its recommendation in respect of the Arrangement. In the event that Shoppers Drug Mart provides the notice contemplated by Section 7.1(d) or Section 7.1(e) on a date which is fewer than five business days prior to the Shoppers Drug Mart Shareholders' Meeting, Shoppers Drug Mart shall be entitled to adjourn or postpone the Shoppers Drug Mart Shareholders' Meeting to a date that is not more than ten business days after the date of such notice.

- (e) Nothing contained in this Agreement shall prohibit the board of directors of Shoppers Drug Mart from withdrawing, modifying, qualifying or changing its recommendation to the Shoppers Drug Mart Shareholders in respect of the transactions contemplated herein prior to the approval of the Arrangement by such shareholders, if the board of directors of Shoppers Drug Mart determines, in good faith (after consultation with its financial advisor(s) and after receiving advice of outside counsel), that the failure to make such withdrawal, modification, qualification or change would be inconsistent with its fiduciary duties under applicable Laws; provided that: (i) prior to making any such withdrawal, modification, qualification or change of recommendation, Shoppers Drug Mart shall give to Loblaw not less than 48 hours' notice of its intention thereof; and (ii) the foregoing shall not relieve Shoppers Drug Mart from its obligation to proceed to call and hold the Shoppers Drug Mart Shareholders' Meeting (provided that, except as required under applicable Laws, Shoppers Drug Mart shall be relieved from its obligations to actively solicit proxies in favour of the Arrangement in such circumstances), except in circumstances where this Agreement is terminated in accordance with the terms hereof.
- (f) Each Party shall ensure that its Representatives, its Subsidiaries and their Representatives are aware of the provisions of this Section 7.1 applicable to such Party. Each Party shall be responsible for any breach of this Section 7.1 by such Party's Representatives, its Subsidiaries or their Representatives.

7.2 Agreement as to Damages

If at any time after the execution of this Agreement:

- (a) the board of directors of Shoppers Drug Mart has withdrawn, modified, qualified or changed any of its recommendations or determinations referred to in Section 2.3 (including, for greater certainty, in the circumstances contemplated by Section 7.1(e)) in a manner adverse to Loblaw or shall have resolved to do so prior to the Effective Date, or has failed to publicly reconfirm any such recommendation, prior to the earlier of five days following such request by Loblaw or 72 hours prior to the Shoppers Drug Mart Shareholders' Meeting (unless Loblaw is then in material breach of its obligations hereunder and such withdrawal, modification, qualification or change relates to such breach, or such withdrawal, modification, qualification or change relates to the occurrence of a Material Adverse Change in respect of Loblaw);
or

- (b) a *bona fide* Acquisition Proposal is publicly announced, proposed, offered or made to the Shoppers Drug Mart Shareholders or any Person shall have publicly announced an intention to make a *bona fide* Acquisition Proposal in respect of Shoppers Drug Mart and: (i) after such Acquisition Proposal shall have been made known, made or announced, the Shoppers Drug Mart Shareholders do not approve the Arrangement or vote upon the Shoppers Drug Mart Arrangement Resolution; or (ii) this Agreement is terminated by Loblaw pursuant to Sections 8.1(d), and in the case of either (i) or (ii) such Acquisition Proposal or an amended version thereof relating to Shoppers Drug Mart is consummated or effected as applicable within 12 months of the date the first Acquisition Proposal is publicly announced, proposed, offered or made; and for the purpose of this subsection the references in the definition of “**Acquisition Proposal**” to “20% or more of any voting or equity securities” shall be deemed to be references to “50% or more of any voting or equity securities”, and the references to “20% or more of the consolidated assets” shall be deemed to be references to “50% or more of the consolidated assets”; or
- (c) Shoppers Drug Mart terminates this Agreement pursuant to Section 8.1(g);

(each of the above being a “**Damages Event**”) then in the event of the termination of this Agreement by Shoppers Drug Mart pursuant to Section 8.1(g) (in the case of Section 7.2(c)), by Shoppers Drug Mart pursuant to Section 8.1(b) (in the case of Section 7.2(b)), by Loblaw pursuant to Sections 8.1(b) or 8.1(d) (in the case of Section 7.2(b)) or by Loblaw pursuant to Section 8.1(f) (in the case of Section 7.2(a)), Shoppers Drug Mart shall pay to Loblaw, or as Loblaw may direct, the amount of \$300 million (the “**Termination Payment**”) as liquidated damages in immediately available funds to an account designated by Loblaw, as follows:

- (i) if the Termination Payment is payable pursuant to Section 7.2(b), the Termination Payment shall be payable upon the consummation of the Acquisition Proposal referred to therein, and any amount paid by Shoppers Drug Mart to Loblaw pursuant to Section 7.4(b) shall be credited towards payment of the Termination Payment;
- (ii) if the Termination Payment is payable pursuant to Section 7.2(a), the Termination Payment shall be payable within two Business Days following such termination; or
- (iii) if the Termination Payment is payable pursuant to Section 7.2(c), the Termination Payment shall be payable prior to or concurrently with such termination.

For greater certainty, only one Termination Payment shall be payable by Shoppers Drug Mart.

7.3 Liquidated Damages

Each Party acknowledges that the payment in accordance with Section 7.2 on or following the termination of the Agreement upon the occurrence of a Damages Event is a payment of liquidated damages which is a genuine pre-estimate of the damages which Loblaw will suffer or incur as a result of the event giving rise to such damages and resultant termination of this Agreement and is not a penalty. Each Party irrevocably waives any right it may have to raise as a defence that any such liquidated damages are excessive or punitive. For greater certainty, the Parties agree that on the termination of this Agreement upon the occurrence of a Damages Event, the payment in full of any amount owing pursuant to Section 7.2 in respect of such Damages Event is the sole monetary remedy of the Party receiving such amount in respect of this Agreement, and the recipient of such amount shall not seek to obtain any recovery, judgment or damages of any kind, whether consequential,

indirect or punitive, against the Party paying such amount or any of its Subsidiaries or Representatives in respect of this Agreement or the transactions contemplated herein; provided that the foregoing limitation shall not apply in the event of fraud or willful breach of this Agreement by a Party.

7.4 Fees and Expenses

- (a) Except as otherwise expressly provided in this Agreement and subject to Section 7.4(b) and 7.4(c): (i) each Party shall pay all fees, costs and expenses incurred by such Party in connection with this Agreement and the Arrangement; and (ii) Loblaw shall be responsible for any filing fees and applicable Taxes payable for or in respect of any application, notification or other filing made in respect of any regulatory process in respect of the transactions contemplated by the Arrangement.
- (b) If: (i) this Agreement is terminated because of the failure of the condition in Section 6.2(a); or (ii) this Agreement is terminated by Loblaw pursuant to Section 8.1(d), and at the time of such termination there is a state of facts or circumstances that would cause the condition set forth in Section 6.2(a) not to be satisfied, Shoppers Drug Mart shall pay Loblaw an amount equal to \$30 million as reimbursement to Loblaw for its out-of-pocket expenses incurred in connection with the Arrangement; provided that if Loblaw is in material breach of its obligations hereunder at the time of the termination of the Agreement such amount will not be payable.
- (c) If: (i) this Agreement is terminated because of the failure of the condition in Section 6.3(a); or (ii) this Agreement is terminated by Shoppers Drug Mart pursuant to Section 8.1(d), and at the time of such termination there is a state of facts or circumstances that would cause the condition set forth in Section 6.3(a) not to be satisfied, Loblaw shall pay Shoppers Drug Mart an amount equal to \$30 million as reimbursement to Shoppers Drug Mart for its out-of-pocket expenses incurred in connection with the Arrangement; provided that if Shoppers Drug Mart is in material breach of its obligations hereunder at the time of the termination of the Agreement such amount will not be payable.
- (d) No amount shall be payable under subsection (b) and (c) if an amount has been paid under Section 7.2.

7.5 Access to Information; Confidentiality

- (a) From the date hereof until the earlier of the Effective Date and the termination of this Agreement, Shoppers Drug Mart shall, and shall cause its Subsidiaries and Representatives to, subject to all applicable Laws and in accordance with any written agreement that addresses confidentiality between the Parties, afford to Loblaw and the Representatives of Loblaw complete access at all reasonable times to their officers, employees, agents, properties, books, records and contracts, and shall furnish Loblaw with all data and information as Loblaw may reasonably request, subject to the conditions contained in any written agreement that addresses confidentiality between the Parties, in order to allow Loblaw and its Representatives to conduct such investigating as they may reasonably consider necessary or advisable for due diligence, strategic planning and other business reasons.

- (b) From the date hereof until the earlier of the Effective Date and the termination of this Agreement, Loblaw shall, and shall cause its Subsidiaries and Representatives to, subject to all applicable Laws and in accordance with any written agreement that addresses confidentiality between the Parties, afford to Shoppers Drug Mart and to the Representatives of Shoppers Drug Mart complete access at all reasonable times to their officers, employees, agents, properties, books, records and contracts, and shall furnish Shoppers Drug Mart with all data and information as Shoppers Drug Mart may reasonably request, subject to the conditions contained in any written agreement that addresses confidentiality between the Parties, in order to allow Shoppers Drug Mart and its Representatives to conduct such investigating as they may reasonably consider necessary or advisable for due diligence, strategic planning and other business reasons.

7.6 Insurance and Indemnification

- (a) Loblaw agrees that it will maintain in effect without any reduction in scope or coverage for six years from the Effective Date customary policies of directors' and officers' liability insurance providing protection comparable to the most favourable protection provided by the policies maintained by Shoppers Drug Mart and its Subsidiaries as were in effect on the date of this Agreement and providing coverage on a "trailing" or "run-off" basis for all present and former directors and officers of Shoppers Drug Mart with respect to claims arising from facts or events which occurred prior to the Effective Date; provided that Loblaw will not be required, in order to maintain such directors' and officers' liability insurance policies, to pay annual premiums in excess of 250% of the annual cost of Shoppers Drug Mart's existing policies; and provided further that, if equivalent coverage cannot be obtained or can only be obtained by paying annual premiums in excess of 250% of Shoppers Drug Mart's current premiums, Loblaw shall only be required to obtain as much coverage as can be obtained by paying annual premiums equal to 250% of Shoppers Drug Mart's current premiums.
- (b) Loblaw agrees that all rights to indemnification or exculpation now existing in favour of present and former officers and directors of Shoppers Drug Mart shall survive the Arrangement and shall continue in full force and effect for a period of not less than six years from the Effective Date.

7.7 Financial Advisors

Loblaw and Shoppers Drug Mart represent and warrant to each other that, except for Bank of America Merrill Lynch in the case of Loblaw and RBC Capital Markets in the case of Shoppers Drug Mart, no financial advisor, broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission, or to the reimbursement of any of its expenses, in connection with the Arrangement. Each Party has provided to the other Party a correct and complete copy of all agreements relating to the arrangements between it and its financial advisors as are in existence at the date hereof and agrees not to amend the terms of any such agreements relating to the payment of fees and expenses or indemnification without the prior written approval of the other Party.

ARTICLE VIII
TERM, TERMINATION, AMENDMENT AND WAIVER

8.1 Termination

This Agreement may be terminated at any time prior to the Effective Date:

- (a) by mutual written consent of Loblaw and Shoppers Drug Mart; or
- (b) by either Loblaw or Shoppers Drug Mart if the Shoppers Drug Mart Arrangement Resolution shall have failed to receive the requisite vote at the Shoppers Drug Mart Shareholders' Meeting (including any adjournment or postponement thereof) in accordance with the Interim Order; or
- (c) by Shoppers Drug Mart if the Loblaw Shareholder Approval is not obtained; or
- (d) by either Loblaw or Shoppers Drug Mart if the Effective Time shall not have occurred on or prior to the Outside Date, except that the right to terminate this Agreement under this Section 8.1(d) shall not be available to any Party whose failure to fulfill any of its obligations or breach of any of its representations or warranties under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur by the Outside Date; or
- (e)
 - (i) by Loblaw if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Shoppers Drug Mart set forth in this Agreement shall have occurred that would cause the conditions set forth in Section 6.2(a) or Section 6.2(b) not to be satisfied, and such conditions are incapable of being satisfied by the Outside Date as reasonably determined by Loblaw and provided that Loblaw is not then in breach of this Agreement so as to cause any condition in Section 6.3(a) or Section 6.3(b) not to be satisfied; or
 - (ii) by Shoppers Drug Mart if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Loblaw set forth in this Agreement shall have occurred that would cause the conditions set forth in Section 6.3(a) or 6.3(b) not to be satisfied, and such conditions are incapable of being satisfied by the Outside Date as reasonably determined by Shoppers Drug Mart and provided that Shoppers Drug Mart is not then in breach of this Agreement so as to cause any condition in Section 6.2(a) or Section 6.2(b) not to be satisfied; or
- (f) by Loblaw upon the occurrence of a Damages Event as provided in Section 7.2(a); or
- (g) by Shoppers Drug Mart to accept, recommend, approve or enter into an agreement to implement a Superior Proposal in accordance with Section 7.1(b)(vii), provided that it: (i) has complied with its obligations set forth in Section 7.1; and (ii) concurrently pays the amount required pursuant to Section 7.2.

8.2 Effect of Termination

In the event of the termination of this Agreement in the circumstances set out in subsections (a) through (g) of Section 8.1, this Agreement shall forthwith become void and neither Party shall have any liability or further obligation to the other Party hereunder, except with respect to the obligations set forth in Sections 5.5(c), 5.7(c), 7.2, 7.3, 7.4, 9.1, 9.2, 9.4, 9.5, 9.6, 9.8 and 9.10 where applicable. Nothing contained in this Section shall relieve any Party from liability for any willful and intentional breach of any provision of this Agreement. No termination of this Agreement shall affect the obligations of the Parties pursuant to the Confidentiality Agreement, except to the extent specified therein.

8.3 Amendment

This Agreement and the Plan of Arrangement may, at any time and from time to time before or after the holding of the Shoppers Drug Mart Shareholders' Meeting but not later than the Effective Time, be amended by mutual written agreement of the Parties, subject to the Interim Order and the Final Order and applicable Laws.

8.4 Waiver

Either Party may: (a) extend the time for the performance of any of the obligations or other acts of the other Party; or (b) waive compliance with any of the other Party's agreements or the fulfillment of any conditions to its own obligations contained herein; or (c) waive inaccuracies in any of the other Party's representations or warranties contained herein or in any document delivered by the other Party; provided, however, that any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such Party and such waiver shall apply only to the specific matters identified in such instrument.

ARTICLE IX GENERAL PROVISIONS

9.1 Notices

All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date delivered or sent if delivered personally or sent by email, or as of the following business day if sent by prepaid overnight courier, to the Parties at the following addresses (or at such other addresses as shall be specified by either Party by notice to the other given in accordance with these provisions):

- (a) if to Loblaw:

Loblaw Companies Limited
1 President's Choice Circle
Brampton, Ontario
L6Y 5S5

Attention: Executive Vice President, Chief Legal Officer
Telephone: (416) 922-8500
Email: gordon.currie@weston.ca

with a copy to:

Torys LLP
79 Wellington Street West, Suite 3000
Toronto, Ontario
M5K 1N2

Attention: Peter Jewett and Cornell C.V. Wright
Telephone: (416) 865-0040
Email: pjewett@torys.com and cwright@torys.com

(b) if to Shoppers Drug Mart:

Shoppers Drug Mart Corporation
243 Consumers Road
Toronto, Ontario
M2J 4W8

Attention: Executive Vice-President, Legal Affairs and General Counsel
Telephone: (416) 493-1220
Email: fpedinelli@shoppersdrugmart.ca

with a copy to:

Osler, Hoskin & Harcourt LLP
100 King Street West
1 First Canadian Place, Suite 6100
Toronto, Ontario
M5X 1B8

Attention: Clay Horner and Doug Bryce
Telephone: (416) 362-2111
Email: chorner@osler.com and dbryce@osler.com

9.2 Entire Agreement; Binding Effect

This Agreement: (a) together with any written agreement that addresses confidentiality between the Parties, constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof; and (b) shall be binding upon and enure to the benefit of the Parties and their respective successors and permitted assigns.

9.3 Assignment

Except as expressly permitted by the terms hereof, neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by either of the Parties hereto without the prior written consent of the other Party.

9.4 Time of Essence

Time shall be of the essence in this Agreement.

9.5 Further Assurances

Each Party hereto shall, from time to time and at all times hereafter, at the request of the other Party hereto, but without further consideration, do all such further acts, and execute and deliver all such further documents and instruments as may be reasonably required in order to fully perform and carry out the terms and intent hereof.

9.6 Specific Performance

The Parties agree that irreparable harm would occur for which money damages would not be an adequate remedy at law in the event that any of the provisions of this Agreement or any written agreement that addresses confidentiality between the Parties were not performed by the other Party in accordance with their specific terms or were otherwise breached. It is accordingly agreed that each Party shall be entitled to an injunction or injunctions and other equitable relief to prevent breaches or threatened breaches of the provisions of this Agreement or any written agreement that addresses confidentiality between the Parties or to otherwise obtain specific performance of any such provisions, any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or other equitable relief hereby being waived.

9.7 Third Party Beneficiaries

The provisions of Section 7.6 are: (a) intended for the benefit of all present and former directors and officers of Shoppers Drug Mart and its Subsidiaries, as and to the extent applicable in accordance with their terms, and shall be enforceable by each of such Persons and his or her heirs, executors administrators and other legal representatives (collectively, the “**Third Party Beneficiaries**”) and Shoppers Drug Mart shall hold the rights and benefits of Section 7.6 in trust for and on behalf of the Third Party Beneficiaries and Shoppers Drug Mart hereby accepts such trust and agrees to hold the benefit of and enforce performance of such covenants on behalf of the Third Party Beneficiaries; and (b) are in addition to, and not in substitution for, any other rights that the Third Party Beneficiaries may have by contract or otherwise. Except as provided in this Section 9.7, this Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

9.8 Governing Law

This Agreement shall be governed by and construed in accordance with the Laws of the Province of Ontario and the laws of Canada applicable therein.

9.9 Attornment

The Parties hereby irrevocably and unconditionally consent to and submit to the courts of the Province of Ontario for any actions, suits or proceedings arising out of or relating to this Agreement or the matters contemplated herein (and agree not to commence any action, suit or proceeding relating thereto except in such courts) and further agree that service of any process, summons, notice or document by registered mail to the addresses of the Parties set forth in this Agreement shall be effective service of process for any action, suit or proceeding brought against any Party in such court. The Parties hereby irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the matters contemplated herein in the courts of the Province of Ontario and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding so brought has been brought in an inconvenient forum.

9.10 Severability

If any one or more of the provisions or parts thereof contained in this Agreement should be or become invalid, illegal or unenforceable in any respect in any jurisdiction, the remaining provisions or parts thereof contained herein shall be and shall be conclusively deemed to be, as to such jurisdiction, severable therefrom and:

- (a) the validity, legality or enforceability of such remaining provisions or parts thereof shall not in any way be affected or impaired by the severance of the provisions or parts thereof severed; and
- (b) the invalidity, illegality or unenforceability of any provision or part thereof contained in this Agreement in any jurisdiction shall not affect or impair such provision or part thereof or any other provisions of this Agreement in any other jurisdiction.

Upon such determination that any term or other provision is invalid, illegal or unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end of that the transactions contemplated herein are fulfilled to the fullest extent possible.

9.11 Counterparts

This Agreement may be executed by facsimile or other electronic signature and in counterparts, each of which shall be deemed an original, and all of which together constitute one and the same instrument.

[The remainder of this page is left blank intentionally]

IN WITNESS WHEREOF the Parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

LOBLAW COMPANIES LIMITED

by: “Galen G. Weston”
Name: Galen G. Weston
Title: Executive Chairman

by: “Sarah R. Davis”
Name: Sarah R. Davis
Title: Chief Financial Officer

SHOPPERS DRUG MART CORPORATION

by: “Domenic Pilla”
Name: Domenic Pilla
Title: President & Chief Executive Officer

by: “Bradley Lukow”
Name: Bradley Lukow
Title: Executive Vice-President and Chief Financial Officer

[Arrangement Agreement]

SCHEDULE 1.1(a)

PLAN OF ARRANGEMENT

[The Plan of Arrangement, as originally attached to the Arrangement Agreement and as filed on SEDAR, has been amended and may be found at Appendix E to this Circular.]

SCHEDULE 1.1(b)

FORM OF SHOPPERS DRUG MART ARRANGEMENT RESOLUTION

[The Shoppers Drug Mart Arrangement Resolution, as originally attached to the arrangement Agreement and as filed on SEDAR, has been amended and may be found at Appendix C to this Circular.]

SCHEDULE 3.1

REPRESENTATIONS AND WARRANTIES OF LOBLAW

(a) **Organization and Qualification.** Each of Loblaw and Loblaw's Material Subsidiaries is duly organized and validly existing under the Laws of its jurisdiction of organization, and has the requisite power and authority to own its properties as now owned and to carry on its business as it is now being conducted. Loblaw and Loblaw's Material Subsidiaries are duly registered to do business and each is in good standing in each jurisdiction in which the character of its properties, owned or leased, or the nature of its activities makes such registration necessary, except where the failure to be so registered or in good standing would not have a Material Adverse Effect in respect of Loblaw.

(b) **Authority Relative this Agreement.** Loblaw has the requisite corporate authority to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the participation by Loblaw in the transactions contemplated herein have been duly authorized by the board of directors of Loblaw and, subject to obtaining the Loblaw Shareholder Approval, no other corporate proceedings on the part of Loblaw are necessary to authorize this Agreement or the transactions contemplated herein. This Agreement has been duly executed and delivered by Loblaw and constitutes a legal, valid and binding obligation of Loblaw enforceable against Loblaw in accordance with its terms, subject to the qualification that such enforceability may be limited by bankruptcy, insolvency, reorganization or other Laws of general application relating to or affecting rights of creditors and that equitable remedies, including specific performance, are discretionary and may not be ordered.

(c) **Ownership of Subsidiaries.** Loblaw is, except as pursuant to restrictions on transfer contained in constating documents, rights of first refusal and similar rights restricting transfer contained in shareholders, partnership or joint venture agreements for or pursuant to existing financing arrangements involving Subsidiaries which are not wholly-owned, the beneficial direct or indirect owner of all of the outstanding shares and other ownership interests of Loblaw's Subsidiaries (other than non-voting interests of certain non-Material Subsidiaries) with good title thereto free and clear of any and all Encumbrances. There are no outstanding options, rights, entitlements, understandings or commitments (contingent or otherwise) regarding the right to acquire any such shares of capital stock or other ownership interests in any of Loblaw's Subsidiaries. All of the outstanding shares of capital stock and other ownership interests in Loblaw's Subsidiaries are validly issued, fully paid and non-assessable and are not subject to, nor were they issued in violation of, any pre-emptive rights.

(d) **No Violation; Absence of Defaults and Conflicts.**

(i) Neither Loblaw nor any of its Subsidiaries is in violation of its constating documents or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which Loblaw or any of its Subsidiaries is a party or to which any of them, or any of their respective properties or assets, may be subject or by which Loblaw or any of its Subsidiaries is bound, except for such defaults which would not result in a Material Adverse Effect.

(ii) Neither the execution and delivery of this Agreement by Loblaw, the consummation of the transactions contemplated herein nor compliance by Loblaw with any of the provisions hereof will: (A) violate, conflict with, or result in a breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event

which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in the creation of any Encumbrance upon any of the properties or assets of Loblaw or any of its Subsidiaries or cause any indebtedness to come due before its stated maturity or cause any credit to cease to be available, under any of the terms, conditions or provisions of: (1) their respective articles, by-laws or other constating documents; or (2) any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which Loblaw or any of its Subsidiaries is a party or to which any of them, or any of their respective properties or assets, may be subject or by which Loblaw or any of its Subsidiaries is bound; or (B) subject to compliance with the statutes and regulations referred to below and assuming all regulatory approvals are obtained, violate any Laws, judgment, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation applicable to Loblaw or any of its Subsidiaries or any of their respective properties or assets (except, in the case of each of clauses (A) and (B) above, for such violations, conflicts, breaches, defaults, terminations, accelerations or creations of Encumbrances which, or any consents, approvals or notices which if not given or received, would not have a Material Adverse Effect in respect of Loblaw or significantly impede the ability of Loblaw to consummate the Arrangement); or (C) assuming all regulatory approvals are obtained, cause the suspension or revocation of any authorization, consent, approval or license currently in effect which would have a Material Adverse Effect in respect of Loblaw.

- (iii) Other than in connection with or in compliance with the provisions of applicable Canadian Securities Laws, the CBCA, the Competition Act or other similar applicable Laws (including any Laws that regulate competition, antitrust, foreign investment or transportation), the terms of the Interim Order and the Final Order in respect of the Arrangement and the filing of the Articles of Arrangement: (A) there is no legal impediment to Loblaw's consummation of the transactions contemplated herein; and (B) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is required of Loblaw in connection with the consummation of the Arrangement, except for such filings or registrations which, if not made, or for such authorizations, consents or approvals which, if not received, would not have a Material Adverse Effect in respect of Loblaw or significantly impede the ability of Loblaw to consummate the transactions contemplated herein.

(e) Litigation. To the knowledge of Loblaw, there are no actions, suits, proceedings or investigations by Governmental Entities threatened, affecting or that would reasonably be expected to affect Loblaw or any of its Subsidiaries or affecting or that would reasonably be expected to affect any of their property or assets at Law or equity before or by any court or Governmental Entity which action, suit, proceeding or investigation involves a possibility of any judgment against or liability of Loblaw or any of its Subsidiaries which, if successful, would have a Material Adverse Effect in respect of Loblaw or would significantly impede the ability of Loblaw to consummate the transactions contemplated herein.

(f) Tax Deficiencies; Audits. To the knowledge of Loblaw, no action or proceeding for assessment or collection of Taxes has been asserted or threatened against Loblaw or any of the Subsidiaries or any of their respective assets that would have a Material Adverse Effect in respect of Loblaw.

(g) Reporting Issuer Status. Loblaw is a reporting issuer (where such concept exists) in all provinces and territories of Canada and is in material compliance with all applicable Canadian Securities Laws therein. The Loblaw Shares and Second Preferred Shares, Series A of Loblaw are listed and posted for trading on the TSX and Loblaw is in material compliance with the rules of the TSX.

(h) Capitalization. The authorized share capital of Loblaw consists of an unlimited number of Loblaw Shares, 1,000,000 First Preferred Shares and an unlimited number of Second Preferred Shares, Series A. As of the date hereof there are: (i) 282,830,180 Loblaw Shares and 9,000,000 Second Preferred Shares, Series A issued and outstanding and no other shares of any class or series outstanding; and (ii) outstanding Loblaw Options providing for the issuance of 12,022,581 Loblaw Shares upon the exercise thereof. All outstanding Loblaw Shares have been duly authorized and validly issued, are fully paid and non-assessable and are not subject to, nor were they issued in violation of, any pre-emptive rights, and all Loblaw Shares issuable upon exercise of outstanding stock options in accordance with their respective terms will be duly authorized and validly issued as fully paid and non-assessable and will not be subject to any pre-emptive rights. All Loblaw Shares issued in accordance with the terms of the Arrangement, and upon exercise of the Replacement Options in accordance with their respective terms, will be duly authorized and validly issued as fully-paid and non-assessable and will not be subject to any pre-emptive rights. Except as set forth above, and other than Loblaw Shares and Loblaw Options or other securities issuable pursuant to the Loblaw Stock Option Plan, there are no options, warrants or other rights, shareholder rights plans, agreements or commitments of any character whatsoever requiring the issuance, sale or transfer by Loblaw of any shares of Loblaw or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire, any shares of Loblaw.

(i) No Orders. No order, ruling or determination having the effect of suspending the sale of, or ceasing the trading of, the Loblaw Shares or any other securities of Loblaw has been issued and is continuing in effect and no proceedings for that purpose have been instituted, are pending or, to the knowledge of Loblaw, are contemplated or threatened under any applicable Laws or by any other Governmental Entity.

(j) Filings. Loblaw has filed all documents required to be filed by it with all applicable Governmental Entities other than such documents that the failure to file would, individually or in the aggregate, not have a Material Adverse Effect in respect of Loblaw and all such documents were, as of their respective dates, in compliance in all material respects with all applicable Laws and at the time filed did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(k) Reports. As of their respective dates: (i) Loblaw's audited financial statements as at and for the fiscal year ended December 29, 2012 and Loblaw's unaudited interim financial statements as at and for the three months ended March 23, 2013 (the "**Loblaw Financial Statements**"); (ii) Loblaw's Annual Information Form dated February 21, 2013 (including all documents incorporated by reference therein); (iii) Loblaw's Management Proxy Circular dated March 18, 2013 for its annual meeting of shareholders held on May 2, 2013; (iv) all Loblaw press releases and material change reports or similar documents filed with any Securities Regulators since December 30, 2012; and (v) all prospectuses or other offering documents used by Loblaw in the offering of its securities or filed with Securities Regulators since December 30, 2012 and all the financial statements, forms, reports, prospectuses or other documents required to be filed by virtue of the applicable securities Laws since December 30, 2012, did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the

circumstances in which they were made, not misleading and complied in all material respects with all applicable Laws. Since December 30, 2012, Loblaw has not filed any material change reports which continue to be confidential. The Loblaw Financial Statements and all financial statements of Loblaw and its Subsidiaries included or incorporated by reference in such forms, statements, prospectuses and other offering documents were prepared in accordance with GAAP (except: (A) as otherwise indicated in such financial statements and the notes thereto or, in the case of audited statements, in the related report of Loblaw's independent auditors; or (B) in the case of unaudited interim statements, to the extent they are subject to normal year-end adjustments), and fairly present the consolidated financial position, results of operations and changes in financial position of Loblaw and its Subsidiaries as of the dates thereof and for the periods indicated therein (subject, in the case of any unaudited interim financial statements, to normal year-end audit adjustments) and reflect appropriate and adequate reserves in respect of contingent liabilities, if any, of Loblaw and its Subsidiaries on a consolidated basis. There has been no change in Loblaw accounting policies, except as described in the notes to the Loblaw Financial Statements, since December 30, 2012.

(l) Absence of Undisclosed Liabilities. Loblaw has no material obligations or liabilities of any nature (matured or unmatured, fixed or contingent), other than:

- (i) those set forth or adequately provided for in the balance sheet included in Loblaw's unaudited financial statements for and as at the three months ended March 23, 2013 (the "**Loblaw Balance Sheet**");
- (ii) those incurred in the ordinary course of business and not required to be set forth in the Loblaw Balance Sheet under GAAP;
- (iii) those incurred in the ordinary course of business since the date of the Loblaw Balance Sheet and consistent with past practice; and
- (iv) those incurred in connection with the execution of this Agreement.

(m) No Material Adverse Change. Since December 30, 2012: (i) Loblaw has conducted its business only in the ordinary and normal course; (ii) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) material to Loblaw has been incurred other than in the ordinary course of business; and (iii) there has not been any Material Adverse Change in respect of Loblaw.

(n) No Defaults under Leases and Agreements. To the knowledge of Loblaw, all leases and other title and operating documents or any other agreement or instrument pertaining to Loblaw's assets to which Loblaw is a party or by or to which it or its interests are bound or subject are in good standing, valid and effective and Loblaw has not received, or given notice of any default thereunder, and there is not thereunder, whether with respect to Loblaw or any of the counterparties thereto, any existing or prospective default or event of default or event which, with notice or lapse of time or both, would constitute a default thereunder which, individually or in aggregate, would have a Material Adverse Effect in respect of Loblaw and in respect to which Loblaw has not taken adequate steps to prevent such default from occurring.

(o) Licenses. Each of Loblaw and Loblaw's Subsidiaries has obtained and is in compliance with all licenses, permits, certificates, consents, orders, grants and other authorizations of or from any Governmental Entity necessary to conduct its businesses as they are now being or are proposed to be conducted, other than such permissions the absence of which would, individually or in the aggregate, not have a Material Adverse Effect in respect of Loblaw.

(p) Insurance. Policies of insurance are in force naming Loblaw as an insured that adequately cover all risks as are customarily covered by businesses in the industry in which Loblaw operates. All such policies shall remain in force and effect (subject to taking into account insurance market conditions and offerings and industry practices) and shall not be cancelled or otherwise terminated as a result of the transactions contemplated herein other than such cancellations as would not individually or in the aggregate have a Material Adverse Effect in respect of Loblaw.

(q) Compliance with Laws. Loblaw and its Subsidiaries have complied with and are not in violation of any applicable Laws other than non-compliance or violations which would, individually or in the aggregate, not have a Material Adverse Effect in respect of Loblaw.

(r) Possession of Intellectual Property. Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect in respect of Loblaw: (i) Loblaw and its Subsidiaries own or possess patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property necessary to carry on the business now operated by them (the “**Loblaw Intellectual Property**”); and (ii) neither Loblaw nor any Subsidiary has received any written notice or claim that remains unresolved challenging Loblaw or its Subsidiaries respecting the validity of, use of or ownership of the Loblaw Intellectual Property, and to the knowledge of Loblaw, there are no facts upon which such a challenge could be made.

(s) Disclosure. No representation or warranty contained in this Agreement or other disclosure document provided or to be provided to Shoppers Drug Mart by Loblaw pursuant to this Agreement contains or will contain any untrue statement of a material fact or omits to state a material fact which is necessary in order to make the statements herein or therein not misleading.

(t) Financing. The Loblaw Commitment Letter is in full force and effect and constitutes a legal, valid and binding obligation of Loblaw and, to the knowledge of Loblaw, the other parties thereto (subject in each case to the effect of bankruptcy, insolvency, receivership or similar laws relating to or affecting creditors’ rights generally and to general equity principles and subject to the inclusion of an exclusive jurisdiction of Ontario courts clause contained therein). No event has occurred which would constitute a breach or default (or with notice or lapse of time or both would constitute a default) by Loblaw under the Loblaw Commitment Letter, or, to the knowledge of Loblaw, the other parties thereto. Assuming the satisfaction of the conditions to the Arrangement as set out in this Agreement, upon receipt of the proceeds contemplated by the Loblaw Commitment Letter, Loblaw will have access to sufficient cash funds (including available cash held by Shoppers Drug Mart and its Subsidiaries) and borrowing capacity to pay all amounts to be paid by it pursuant to this Agreement and to perform its obligations hereunder. A true, complete and correct copy of the Loblaw Commitment Letter has been provided to Shoppers Drug Mart.

SCHEDULE 4.1

REPRESENTATIONS AND WARRANTIES OF SHOPPERS DRUG MART

- (a) **Organization and Qualification.** Each of Shoppers Drug Mart and Shoppers Drug Mart's Material Subsidiaries is a corporation duly incorporated and validly existing under the Laws of its jurisdiction of incorporation or continuance and has the requisite corporate power and authority to own its properties as now owned and to carry on its business as it is now being conducted. Shoppers Drug Mart is, and Shoppers Drug Mart's Material Subsidiaries are, duly registered to do business and each is in good standing in each jurisdiction in which the character of its properties, owned or leased, or the nature of its activities makes such registration necessary, except where the failure to be so registered or in good standing would not have a Material Adverse Effect in respect of Shoppers Drug Mart and its Subsidiaries taken as a whole.
- (b) **Authority Relative this Agreement.** Shoppers Drug Mart has the requisite corporate authority to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the participation by Shoppers Drug Mart in the Arrangement contemplated herein have been duly authorized by Shoppers Drug Mart's board of directors and, subject to such approval of Shoppers Drug Mart Shareholders as is stipulated by the Court in the Interim Order, no other corporate proceedings on the part of Shoppers Drug Mart are necessary to authorize this Agreement or the Arrangement. This Agreement has been duly executed and delivered by Shoppers Drug Mart and constitutes a legal, valid and binding obligation of Shoppers Drug Mart enforceable against it in accordance with its terms, subject to the qualification that such enforceability may be limited by bankruptcy, insolvency, reorganization or other Laws of general application relating to or affecting rights of creditors and that equitable remedies, including specific performance, are discretionary and may not be ordered.
- (c) **Ownership of Subsidiaries.** Shoppers Drug Mart is, except as pursuant to restrictions on transfer contained in constating documents, rights of first refusal and similar rights restricting transfer contained in shareholders, partnership or joint venture agreements for or pursuant to existing financing arrangements involving Subsidiaries which are not wholly-owned, the beneficial direct or indirect owner of all of the outstanding shares and other ownership interests of Shoppers Drug Mart's Subsidiaries with good title thereto free and clear of any and all Encumbrances. There are no outstanding options, rights, entitlements, understandings or commitments (contingent or otherwise) regarding the right to acquire any such shares of capital stock or other ownership interests in any of Shoppers Drug Mart's Subsidiaries. All of the outstanding shares of capital stock and other ownership interests in Shoppers Drug Mart's Subsidiaries are validly issued, fully paid and non-assessable and are not subject to, nor were they issued in violation of, any pre-emptive rights.
- (d) **No Violations; Absence of Defaults and Conflicts.**
- (i) Neither Shoppers Drug Mart nor any of its Subsidiaries is in violation of its constating documents or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which Shoppers Drug Mart or any of its Subsidiaries is a party or to which any of them, or any of their respective properties or assets, may be subject or by which Shoppers Drug Mart or any of its Subsidiaries is bound, except for such defaults which would not result in a Material Adverse Effect.

- (ii) Neither the execution and delivery of this Agreement by Shoppers Drug Mart nor the consummation of the Arrangement contemplated herein nor compliance by Shoppers Drug Mart with any of the provisions hereof will: (A) violate, conflict with, or result in a breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in the creation of any Encumbrance upon any of the properties or assets of Shoppers Drug Mart or any of its Subsidiaries or cause any indebtedness to come due before its stated maturity or cause any credit to cease to be available, under any of the terms, conditions or provisions of: (1) their respective articles, by-laws or other constating documents; or (2) any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which Shoppers Drug Mart or any of its Subsidiaries is a party or to which any of them, or any of their respective properties or assets, may be subject or by which Shoppers Drug Mart or any of its Subsidiaries is bound; or (B) subject to compliance with the statutes and regulations referred to below and assuming all regulatory approvals are obtained, violate any Laws, judgment, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation applicable to Shoppers Drug Mart or any of its Subsidiaries or any of their respective properties or assets (except, in the case of each of clauses (A) and (B) above, for such violations, conflicts, breaches, defaults, terminations, accelerations or creations of Encumbrances which, or any consents, approvals or notices which if not given or received, would not have a Material Adverse Effect in respect of Shoppers Drug Mart or significantly impede the ability of Shoppers Drug Mart to consummate the Arrangement); or (C) assuming all regulatory approvals are obtained, cause the suspension or revocation of any authorization, consent, approval or license currently in effect which would have a Material Adverse Effect in respect of Shoppers Drug Mart.
 - (iii) Other than in connection with or in compliance with the provisions of applicable Canadian Securities Laws, the CBCA, the Competition Act or other similar applicable Laws (including any Laws that regulate competition, antitrust, foreign investment or transportation), the terms of the Interim Order and the Final Order in respect of the Arrangement and the filing of the Articles of Arrangement: (A) there is no legal impediment to Shoppers Drug Mart's consummation of the Arrangement; and (B) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is required of Shoppers Drug Mart in connection with the consummation of the Arrangement, except for such filings or registrations which, if not made, or for such authorizations, consents or approvals which, if not received, would not have a Material Adverse Effect in respect of Shoppers Drug Mart or significantly impede the ability of Shoppers Drug Mart to consummate the Arrangement.
- (e) Litigation. To the knowledge of Shoppers Drug Mart, there are no actions, suits, proceedings or investigations by Governmental Entities threatened, affecting or that would reasonably be expected to affect Shoppers Drug Mart or any of its Subsidiaries or affecting or that would reasonably be expected to affect any of their property or assets at Law or equity before or by any court or Governmental Entity which action, suit, proceeding or investigation involves a possibility of any judgment against or liability of Shoppers Drug Mart or any of its Subsidiaries which, if successful, would have a Material Adverse Effect in respect of Shoppers Drug Mart or would significantly impede the ability of Shoppers Drug Mart to consummate the Arrangement.
- (f) Tax Deficiencies; Audits. To the knowledge of Shoppers Drug Mart, no action or proceeding for assessment or collection of Taxes has been asserted or threatened against Shoppers Drug Mart or any of

the Subsidiaries or any of their respective assets that would have a Material Adverse Effect in respect of Shoppers Drug Mart.

(g) Reporting Issuer Status. Shoppers Drug Mart is a reporting issuer (where such concept exists) in all provinces and territories of Canada and is in material compliance with all applicable Canadian Securities Laws therein. The Shoppers Drug Mart Shares are listed and posted for trading on the TSX and Shoppers Drug Mart is in material compliance with the rules of the TSX.

(h) Capitalization. The authorized share capital of Shoppers Drug Mart consists of an unlimited number of Shoppers Drug Mart Shares and an unlimited number of preferred shares. As of the date hereof there are: (i) 199,995,534 Shoppers Drug Mart Shares issued and outstanding and no other shares of any class or series outstanding; (ii) outstanding Shoppers Drug Mart Options providing for the issuance of 941,958 Shoppers Drug Mart Shares upon the exercise of thereof; and (iii) 748,792 Shoppers Drug Mart RSUs issued and outstanding. As at March 23, 2013, there were 218,612 Shoppers Drug Mart DSUs issued and outstanding. All outstanding Shoppers Drug Mart Shares have been duly authorized and validly issued, are fully paid and non-assessable and are not subject to, nor were they issued in violation of, any pre-emptive rights, and all Shoppers Drug Mart Shares issuable upon exercise of Shoppers Drug Mart Options in accordance with their respective terms will be duly authorized and validly issued as fully paid and non-assessable and will not be subject to any pre-emptive rights. Except as set forth above, and other than Shoppers Drug Mart Shares and Shoppers Drug Mart Options issuable pursuant to the Shoppers Drug Mart Stock Option Plan and Shoppers Drug Mart Shares issued pursuant to the Shoppers Drug Mart Shareholder Rights Plan, there are no options, warrants or other rights, shareholder rights plans, agreements or commitments of any character whatsoever requiring the issuance, sale or transfer by Shoppers Drug Mart of any shares of Shoppers Drug Mart or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire, any shares of Shoppers Drug Mart.

(i) No Orders. No order, ruling or determination having the effect of suspending the sale of, or ceasing the trading of, the Shoppers Drug Mart Shares or any other securities of Shoppers Drug Mart has been issued and is continuing in effect and no proceedings for that purpose have been instituted, are pending or, to the knowledge of Shoppers Drug Mart, are contemplated or threatened under any applicable Laws or by any other Governmental Entity.

(j) Filings. Shoppers Drug Mart has filed all documents required to be filed by it with all applicable Governmental Entities other than such documents that the failure to file would, individually or in the aggregate, not have a Material Adverse Effect in respect of Shoppers Drug Mart and all such documents were, as of their respective dates, in compliance in all material respects with all applicable Laws and at the time filed did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(k) Reports. As of their respective dates: (i) Shoppers Drug Mart's audited financial statements as at and for the fiscal year ended December 29, 2012 and Shoppers Drug Mart's unaudited interim financial statements as at and for the three months ended March 23, 2013 (the "**Shoppers Drug Mart Financial Statements**"); (ii) Shoppers Drug Mart's Annual Information Form dated March 20, 2013 (including all documents incorporated by reference therein); (iii) Shoppers Drug Mart's Management Proxy Circular dated March 20, 2013 for its annual meeting of shareholders held on May 9, 2013; (iv) all Shoppers Drug Mart press releases and material change reports or similar documents filed with any Securities Regulators since December 30, 2012; and (v) all prospectuses or other offering documents used by Shoppers Drug Mart in the offering of its securities or filed with Securities Regulators since December 30, 2012 are all the financial statements, forms, reports, prospectuses or other documents required to be filed by virtue of

the applicable securities Laws since December 30, 2012, did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading and complied in all material respects with all applicable Laws. Since December 30, 2012, Shoppers Drug Mart has not filed any material change reports which continue to be confidential. The Shoppers Drug Mart Financial Statements and all financial statements of Shoppers Drug Mart and its Subsidiaries included or incorporated by reference in such forms, statements, prospectuses and other offering documents were prepared in accordance with GAAP (except: (i) as otherwise indicated in such financial statements and the notes thereto or, in the case of audited statements, in the related report of Shoppers Drug Mart's independent auditors; or (ii) in the case of unaudited interim statements, to the extent they are subject to normal year-end adjustments), and fairly present the consolidated financial position, results of operations and changes in financial position of Shoppers Drug Mart and its Subsidiaries as of the dates thereof and for the periods indicated therein (subject, in the case of any unaudited interim financial statements, to normal year-end audit adjustments) and reflect appropriate and adequate reserves in respect of contingent liabilities, if any, of Shoppers Drug Mart and its Subsidiaries on a consolidated basis. There has been no change in Shoppers Drug Mart accounting policies, except as described in the notes to the Shoppers Drug Mart Financial Statements, since December 30, 2012.

(l) Absence of Undisclosed Liabilities. Shoppers Drug Mart has no material obligations or liabilities of any nature (matured or unmatured, fixed or contingent), other than:

- (i) those set forth or adequately provided for in the balance sheet included in Shoppers Drug Mart's unaudited financial statements for and as at the three months ended March 23, 2013 (the "**Shoppers Drug Mart Balance Sheet**");
- (ii) those incurred in the ordinary course of business and not required to be set forth in the Shoppers Drug Mart Balance Sheet under GAAP;
- (iii) those incurred in the ordinary course of business since the date of the Shoppers Drug Mart Balance Sheet and consistent with past practice; and
- (iv) those incurred in connection with the execution of this Agreement.

(m) No Material Adverse Change. Since December 30, 2012: (i) Shoppers Drug Mart has conducted its business only in the ordinary and normal course; (ii) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) material to Shoppers Drug Mart has been incurred other than in the ordinary course of business; and (iii) there has not been any Material Adverse Change in respect of Shoppers Drug Mart.

(n) Conduct of Business. Since December 30, 2012 neither Shoppers Drug Mart nor any of its Subsidiaries has taken any action that would be in violation of Section 5.1 if such provision had been in effect since that date, other than violations which would not have any Material Adverse Effect in respect of Shoppers Drug Mart, or would not significantly impede Shoppers Drug Mart's ability to consummate the Arrangement contemplated herein.

(o) No Defaults under Leases and Agreements. To the knowledge of Shoppers Drug Mart, all leases and other title and operating documents or any other agreement or instrument pertaining to Shoppers Drug Mart's assets to which Shoppers Drug Mart is a party or by or to which it or its interests are bound or subject are in good standing, valid and effective and Shoppers Drug Mart has not received, or given notice of any default thereunder, and there is not thereunder, whether with respect to Shoppers Drug Mart or any of the counterparties thereto, any existing or prospective default or event of default or event which,

with notice or lapse of time or both, would constitute a default thereunder which, individually or in aggregate, would have a Material Adverse Effect in respect of Shoppers Drug Mart and in respect to which Shoppers Drug Mart has not taken adequate steps to prevent such default from occurring.

(p) Licenses. Each of Shoppers Drug Mart, its Subsidiaries and, to the knowledge of Shoppers Drug Mart, each Shoppers Drug Mart Licensee has obtained and is in compliance with all licenses, permits, certificates, consents, orders, grants and other authorizations of or from any Governmental Entity necessary to conduct its businesses as they are now being or are proposed to be conducted, other than such permissions the absence of which would, individually or in the aggregate, not have a Material Adverse Effect in respect of Shoppers Drug Mart.

(q) Insurance. Policies of insurance are in force naming Shoppers Drug Mart as an insured that adequately cover all risks as are customarily covered by businesses in the industry in which Shoppers Drug Mart operates. All such policies shall remain in force and effect (subject to taking into account insurance market conditions and offerings and industry practices) and shall not be cancelled or otherwise terminated as a result of the transactions contemplated herein other than such cancellations as would not individually or in the aggregate have a Material Adverse Effect in respect of Shoppers Drug Mart.

(r) Compliance with Laws. Shoppers Drug Mart, its Subsidiaries and, to the knowledge of Shoppers Drug Mart, the Shoppers Drug Mart Licensees have complied with and are not in violation of any applicable Laws other than non-compliance or violations which would, individually or in the aggregate, not have a Material Adverse Effect in respect of Shoppers Drug Mart.

(s) Possession of Intellectual Property. Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect in respect of Shoppers Drug Mart, (i) Shoppers Drug Mart and its Subsidiaries own or possess patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property necessary to carry on the business now operated by them (the “**Shoppers Drug Mart Intellectual Property**”), and (ii) neither Shoppers Drug Mart nor any Subsidiary has received any written notice or claim that remains unresolved challenging Shoppers Drug Mart or its Subsidiaries respecting the validity of, use of or ownership of the Shoppers Drug Mart Intellectual Property, and to the knowledge of Shoppers Drug Mart, there are no facts upon which such a challenge could be made.

(t) Confidentiality Agreements. Shoppers Drug Mart has not waived the standstill or other provisions of any confidentiality or standstill agreements with persons other than Loblaw.

(u) Disclosure. No representation or warranty contained in this Agreement provided or to be provided to Loblaw by Shoppers Drug Mart pursuant to this Agreement contains or will contain any untrue statement of a material fact or omits to state a material fact which is necessary in order to make the statements herein or therein not misleading.

APPENDIX E

PLAN OF ARRANGEMENT

FORM OF PLAN OF ARRANGEMENT UNDER SECTION 192 OF THE CANADA BUSINESS CORPORATIONS ACT

ARTICLE 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions.

In this Plan of Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following words and terms shall have the meanings hereinafter set forth:

“**Arrangement**” means the arrangement of Shoppers Drug Mart under section 192 of the CBCA on the terms and subject to the conditions set out in this Plan of Arrangement, subject to any amendments or variations thereto made in accordance with the Arrangement Agreement and Section 6.1 hereof or made at the discretion of the Court in the Final Order (with the consent of Shoppers Drug Mart and Loblaw, each acting reasonably);

“**Arrangement Agreement**” means the Arrangement Agreement dated as of July 14, 2013 between Loblaw and Shoppers Drug Mart providing for, among other things, the Arrangement, as the same may be amended, supplemented and/or restated from time to time;

“**Articles of Arrangement**” means the articles of arrangement of Shoppers Drug Mart in respect of the Arrangement that are required by the CBCA to be sent to the Director after the Final Order is made, which shall be in form and substance satisfactory to Loblaw and Shoppers Drug Mart, each acting reasonably;

“**business day**” means any day, other than a Saturday, a Sunday or a statutory holiday, in the Province of Ontario;

“**Cash Consideration**” means \$61.54 in cash for each Shoppers Drug Mart Share;

“**CBCA**” means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended;

“**Certificate**” means the certificate of arrangement giving effect to the Arrangement, issued pursuant to subsection 192(7) of the CBCA after the Articles of Arrangement have been filed;

“**Court**” means the Ontario Superior Court of Justice (Commercial List);

“**Depository**” means Laurel Hill Advisory Group at its offices set out in the Letter of Transmittal and Election Form;

“**Director**” means the Director appointed pursuant to section 260 of the CBCA;

“**Dissent Rights**” shall have the meaning ascribed thereto in Section 4.1;

“**Dissenting Shareholder**” means a registered holder of Shoppers Drug Mart Shares who dissents in respect of the Shoppers Drug Mart Arrangement Resolution in strict compliance with the Dissent Rights and who is ultimately entitled to be paid fair value for its Shoppers Drug Mart Shares;

“**Effective Date**” means the date of the Certificate;

“**Effective Time**” means 12:01 a.m. (Toronto Time) on the Effective Date, or such other time as the parties may agree to in writing before the Effective Date;

“**Election Deadline**” means 5:00 p.m. (Toronto Time) on the business day which is two business days preceding the Effective Date;

“**Eligible Holder**” means a beneficial holder of Shoppers Drug Mart Shares that is: (i) a resident of Canada for purposes of the Tax Act and not exempt from tax under Part I of the Tax Act; or (ii) a partnership, any member of which is a resident of Canada for purposes of the Tax Act and not exempt from tax under Part I of the Tax Act;

“**Exchange Ratio**” means, subject to adjustment (if any) as provided in Section 3.7, 1.29417 of a Loblaw Share plus the portion of a Loblaw Share that, immediately prior to the Effective Time, has a fair market value equal to \$0.01 cash;

“**Final Order**” means the order of the Court, in form and substance satisfactory to Loblaw and Shoppers Drug Mart, each acting reasonably, approving the Arrangement, as such order may be amended by the Court (with the consent of Loblaw and Shoppers Drug Mart, each acting reasonably) at any time prior to the Effective Date or, if appealed, then unless such appeal is withdrawn or denied, as affirmed or as amended (provided that any such amendment is satisfactory to Loblaw and Shoppers Drug Mart, each acting reasonably) on appeal;

“**Former Shoppers Drug Mart Shareholders**” means, at and following the Effective Time, the holders of Shoppers Drug Mart Shares immediately prior to the Effective Time;

“**Governmental Entity**” means any: (i) multinational, federal, provincial, territory, state, regional, municipal, local or other government or any governmental or public department, court, tribunal, arbitral body, commission, board, bureau or agency; (ii) any subdivision, agent, commission, board or authority of any of the foregoing; or (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing;

“**Interim Order**” means an order of the Court, in form and substance acceptable to Loblaw and Shoppers Drug Mart, acting reasonably, containing declarations and directions in respect of the notice to be given and the conduct of the Shoppers Drug Mart Shareholders’ Meeting with respect to the Arrangement, as such order may be amended by the Court with the consent of Loblaw and Shoppers Drug Mart, each acting reasonably;

“**Letter of Transmittal and Election Form**” means the letter of transmittal and election form for use by Shoppers Drug Mart Shareholders with respect to the Arrangement;

“**Loblaw**” means Loblaw Companies Limited, a corporation existing under the CBCA;

“**Loblaw Shares**” means the common shares in the capital of Loblaw;

“**Maximum Aggregate Cash Consideration**” means (i) the product obtained by multiplying the number of Shoppers Drug Mart Shares issued and outstanding immediately prior to the Effective Time by \$33.18, less (ii) the product obtained by multiplying the number of Shoppers Drug Mart Shares held by Dissenting Shareholders by the Cash Consideration;

“**Maximum Aggregate Share Consideration**” means the product obtained by multiplying the number of Shoppers Drug Mart Shares issued and outstanding immediately prior to the Effective Time by 0.5965;

“**Person**” includes an individual, firm, trust, partnership, association, corporation, joint venture, trustee, executor, administrator, legal representative or government (including any Governmental Entity);

“**Plan of Arrangement**”, “**hereof**”, “**herein**”, “**hereto**” and like references mean and refer to this plan of arrangement;

“**Replacement Option**” means an option or right to purchase Loblaw Shares granted by Loblaw in replacement of Shoppers Drug Mart Options on the basis set forth in Section 3.1(e);

“**Share Consideration**” means 1.29417 of a Loblaw Share plus \$0.01 in cash for each Shoppers Drug Mart Share;

“**Shoppers Drug Mart**” means Shoppers Drug Mart Corporation, a corporation existing under the CBCA;

“**Shoppers Drug Mart Arrangement Resolution**” means a special resolution of Shoppers Drug Mart in substantially the form of Schedule **Error! Reference source not found.**(b) to the Arrangement Agreement;

“**Shoppers Drug Mart CEO DSU Plan**” means Shoppers Drug Mart’s Deferred Share Unit Plan for the Chief Executive Officer dated November 9, 2011;

“**Shoppers Drug Mart DSU Plan**” means Shoppers Drug Mart’s Deferred Share Unit Plan for Non-Employee Directors as amended and restated effective February 9, 2007 and February 9, 2013;

“**Shoppers Drug Mart DSUs**” means the deferred share units granted under the Shoppers Drug Mart DSU Plan and the Shoppers Drug Mart CEO DSU Plan;

“**Shoppers Drug Mart Options**” means the options to purchase Shoppers Drug Mart Shares granted by Shoppers Drug Mart pursuant to the provisions of the Shoppers Drug Mart Share Plans and the Shoppers Drug Mart Predecessor Plans;

“**Shoppers Drug Mart Predecessor Plans**” means Shoppers Drug Mart’s 2000 Stock Purchase and Option Plans and Shoppers Drug Mart’s 2001 Employee Share Purchase Plan;

“**Shoppers Drug Mart RSU Plans**” means Shoppers Drug Mart’s Restricted Share Unit Plans dated November 11, 2009, and as amended and restated effective February 9, 2012;

“**Shoppers Drug Mart RSUs**” means the restricted share units granted under the Shoppers Drug Mart RSU Plans;

“**Shoppers Drug Mart Share Awards**” means the Shoppers Drug Mart DSUs and Shoppers Drug Mart RSUs;

“**Shoppers Drug Mart Share Plans**” means Shoppers Drug Mart’s Share Incentive Plans dated November 21, 2001, as amended and restated effective November 4, 2005, November 8, 2006, February 9, 2007 and Shoppers Drug Mart’s Share Incentive Plan as amended and restated effective February 9, 2012;

“**Shoppers Drug Mart Shareholder Rights Plan**” means Shoppers Drug Mart’s Shareholder Rights Plan dated as of March 31, 2005;

“**Shoppers Drug Mart Shareholders**” means the holders of Shoppers Drug Mart Shares;

“**Shoppers Drug Mart Shareholders’ Meeting**” means such meeting or meetings of Shoppers Drug Mart Shareholders, including any adjournment or postponement thereof, that is to be convened to consider, and if deemed advisable approve, the Shoppers Drug Mart Arrangement Resolution;

“**Shoppers Drug Mart Shares**” means the common shares in the capital of Shoppers Drug Mart;

“**Tax Act**” means the *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.), as amended, including the regulations promulgated thereunder, as amended from time to time;

“**Total Elected Cash Consideration**” has the meaning ascribed thereto in Section 3.3(a)(i);

“**Total Elected Share Consideration**” has the meaning ascribed thereto in Section 3.3(a)(ii);

“**TSX**” means the Toronto Stock Exchange;

“**Unvested Shoppers Drug Mart Share Award**” has the meaning ascribed thereto in Section 3.1(d); and

“**Vested Shoppers Drug Mart RSU**” has the meaning ascribed thereto in Section 3.1(c).

Words and phrases used herein that are defined in the Arrangement Agreement and not defined herein shall have the same meaning herein as in the Arrangement Agreement, unless the context otherwise requires. Words and phrases used herein that are defined in the CBCA and not defined herein or in the Arrangement Agreement shall have the same meaning herein as in the CBCA, unless the context otherwise requires.

1.2 Interpretation Not Affected By Headings, etc.

The division of this Plan of Arrangement into Articles, Sections and subsections and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Plan of Arrangement.

1.3 Article References

Unless the contrary intention appears, references in this Plan of Arrangement to an Article, Section or subsection by number or letter or both refer to the Article, Section or subsection respectively, bearing that designation in this Plan of Arrangement.

1.4 Number and Gender

In this Plan of Arrangement, unless the contrary intention appears, words importing the singular include the plural and vice versa, and words importing gender shall include all genders.

1.5 Date for Any Action

If the date on which any action is required to be taken hereunder by any of the parties is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

1.6 Statutory References

Unless otherwise indicated, references in this Plan of Arrangement to any statute includes all regulations made pursuant to such statute and the provisions of any statute or regulation which amends, supplements or supersedes any such statute or regulation.

1.7 Currency

Unless otherwise stated, all references in this Agreement to sums of money are expressed in lawful money of Canada.

ARTICLE 2 ARRANGEMENT AGREEMENT

2.1 Arrangement Agreement

This Plan of Arrangement is made pursuant to, and is subject to the provisions of, the Arrangement Agreement. This Plan of Arrangement shall become effective at, and be binding at and after, the Effective Time on Loblaw, Shoppers Drug Mart and all persons who were immediately prior to the Effective Time holders or beneficial owners of Shoppers Drug Mart Shares, Shoppers Drug Mart Options, Shoppers Drug Mart DSUs and Shoppers Drug Mart RSUs.

ARTICLE 3 ARRANGEMENT

3.1 Arrangement

Commencing at the Effective Time, the following events or transactions shall occur and shall be deemed to occur in the following sequence without any further act or formality:

- (a) the Shoppers Drug Mart Shareholder Rights Plan shall be terminated (and all rights issued thereunder shall expire) and shall be of no further force or effect;
- (b) each outstanding Shoppers Drug Mart Share held by a Dissenting Shareholder shall be deemed to be transferred by the holder thereof to Loblaw free and clear of all liens, claims and encumbrances, and each Dissenting Shareholder shall cease to have any rights as a Shoppers Drug Mart Shareholder other than the right to be paid the fair value of their Shoppers Drug Mart Shares by Loblaw in accordance with Article 4 hereof, and the name of such holder shall be removed from the register of holders of Shoppers Drug Mart Shares, and Loblaw shall be recorded as the registered holder of the Shoppers Drug Mart

Share so transferred and shall be deemed to be the legal and beneficial owner thereof, free and clear of any liens, claims or encumbrances;

- (c) simultaneously with the exchange in Section 3.1(f), each outstanding Shoppers Drug Mart RSU that is vested or will vest in accordance with its terms at the Effective Time (“**Vested Shoppers Drug Mart RSU**”) shall, without any act or formality on the part of the holder thereof, be disposed of and surrendered by the holder thereof, to Shoppers Drug Mart in exchange for a cash payment (net of any applicable withholdings) equal to (A) the number of Shoppers Drug Mart Shares subject to the Vested Shoppers Drug Mart RSU immediately prior to the Effective Time, multiplied by (B) the fair market value of a Shoppers Drug Mart Share immediately prior to the Effective Time determined in accordance with the terms of the Shoppers Drug Mart RSU Plans, as applicable;
- (d) simultaneously with the exchange in Section 3.1(f), each Shoppers Drug Mart Share Award other than a Vested Shoppers Drug Mart RSU outstanding at the Effective Time (“**Unvested Shoppers Drug Mart Share Award**”) shall be continued on the same terms and conditions as were applicable immediately prior to the Effective Time, except that, pursuant to the terms of the Shoppers Drug Mart RSU Plans, the Shoppers Drug Mart DSU Plan and the Shoppers Drug Mart CEO DSU Plan, as applicable, the terms of such Unvested Shoppers Drug Mart Share Awards shall be amended so as to substitute for the Shoppers Drug Mart Shares subject to such Unvested Shoppers Drug Mart Share Awards such number of Loblaw Shares equal to (A) the number of Shoppers Drug Mart Shares subject to the Unvested Shoppers Drug Mart Share Awards immediately prior to the Effective Time, multiplied by (B) the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares;
- (e) simultaneously with the exchange in Section 3.1(f), each Shoppers Drug Mart Option outstanding at the Effective Time (whether vested or unvested) will be exchanged for a Replacement Option to acquire such number of Loblaw Shares as is equal to: (A) that number of Shoppers Drug Mart Shares that were issuable upon exercise of such Shoppers Drug Mart Option immediately prior to the Effective Time, multiplied by (B) the Exchange Ratio, rounded down to the nearest whole number of Loblaw Shares, at an exercise price per Loblaw Share equal to the greater of the quotient determined by dividing: (X) the exercise price per Shoppers Drug Mart Share at which such Shoppers Drug Mart Option was exercisable immediately prior to the Effective Time, by (Y) the Exchange Ratio, rounded up to the nearest whole cent, and such minimum amount that meets the requirements of paragraph 7(1.4)(c) of the Tax Act. All terms and conditions of a Replacement Option, including the term to expiry, vesting, conditions to and manner of exercising, shall be the same as the Shoppers Drug Mart Option for which it was exchanged, and any certificate or option agreement previously evidencing the Shoppers Drug Mart Option shall thereafter evidence and be deemed to evidence such Replacement Option;
- (f) each outstanding Shoppers Drug Mart Share (other than those held by Dissenting Shareholders), shall be transferred by the holder thereof to Loblaw in accordance with the election or deemed election of such holder pursuant to Section 3.2 and, subject to Sections 3.3 and 3.6, in exchange for (i) the Cash Consideration; or (ii) the Share Consideration, and the name of such holder shall be removed from the register of holders of Shoppers Drug Mart Shares and, to the extent such holder has elected to or is deemed to have elected to receive the Share Consideration, added to the register of holders of Loblaw Shares, and Loblaw shall be recorded as the registered holder of the Shoppers

Drug Mart Share so exchanged and shall be deemed to be the legal and beneficial owner thereof, free and clear of any liens, claims or encumbrances; and

- (g) the Shoppers Drug Mart Share Plan and the Shoppers Drug Mart Predecessor Plans shall be terminated (and all rights issued thereunder shall expire) and shall be of no further force or effect.

3.2 Election

With respect to the exchange of Shoppers Drug Mart Shares effected pursuant to Section 3.1(f):

- (a) each Shoppers Drug Mart Shareholder (other than Dissenting Shareholders) may elect to receive, in respect of each Shoppers Drug Mart Share held, the Cash Consideration or the Share Consideration, subject to Sections 3.3 and 3.6;
- (b) the election provided for in Section 3.2(a) shall be made by each Shoppers Drug Mart Shareholder by depositing with the Depository, prior to the Election Deadline, a duly completed Letter of Transmittal and Election Form indicating such holder's election, together with any certificates representing the holder's Shoppers Drug Mart Shares. Loblaw shall provide at least three (3) days' notice of the Election Deadline to Shoppers Drug Mart Shareholders by means of a news release disseminated on newswire;
- (c) any Letter of Transmittal and Election Form, once deposited with the Depository, shall be irrevocable and may not be withdrawn by a Shoppers Drug Mart Shareholder;
- (d) any Shoppers Drug Mart Shareholder who does not deposit with the Depository a duly completed Letter of Transmittal and Election Form prior to the Election Deadline, or otherwise fails to comply with the requirements of Section 3.2(b) and the Letter of Transmittal and Election Form, shall be deemed to have elected to receive, subject to Section 3.3, the Cash Consideration as to 53.9% of such holder's Shoppers Drug Mart Shares and the Share Consideration as to 46.1% of such holder's Shoppers Drug Mart Shares; and
- (e) notwithstanding any provision herein to the contrary, any Shoppers Drug Mart Shareholder who elects, or is deemed to have elected, to receive the Cash Consideration for some but not all of such holder's Shoppers Drug Mart Shares shall transfer each of the holder's Shoppers Drug Mart Shares pursuant to Section 3.1(f) for an equal portion of the combined Cash Consideration and Share Consideration resulting from such elections or deemed elections.

3.3 Adjustments to Share and Cash Consideration

- (a) Notwithstanding Section 3.2 or any provision herein contrary to, (i) the maximum amount of cash that may, in the aggregate, be paid to the Shoppers Drug Mart Shareholders pursuant to Section 3.1(f) shall be equal to the Maximum Aggregate Cash Consideration; and (ii) the maximum number of Loblaw Shares that may, in the aggregate, be issued to the Shoppers Drug Mart Shareholders pursuant to Section 3.1(f) shall be equal to the Maximum Aggregate Share Consideration. In the event that:
 - (i) the aggregate amount of cash that would, but for this Section 3.3(a)(i), be paid to Shoppers Drug Mart Shareholders in accordance with the elections or deemed

elections of such Shoppers Drug Mart Shareholders pursuant to Section 3.2 (the “**Total Elected Cash Consideration**”) exceeds the Maximum Aggregate Cash Consideration, then the aggregate amount of cash to be paid to any Shoppers Drug Mart Shareholder shall be determined by multiplying the aggregate amount of cash that would, but for this Section 3.3(a)(i), be paid to such Shoppers Drug Mart Shareholder by a fraction, rounded to six decimal places, the numerator of which is the Maximum Aggregate Cash Consideration and the denominator of which is the Total Elected Cash Consideration; and such holder shall be deemed to have elected to receive Share Consideration for the remainder of their Shoppers Drug Mart Shares for which, but for this Section 3.3(a)(i), such holder would otherwise have received cash; and

- (ii) the aggregate number of Loblaw Shares that would, but for this Section 3.3(a)(ii), be issued to Shoppers Drug Mart Shareholders in accordance with the elections or deemed elections of such Shoppers Drug Mart Shareholders pursuant to Section 3.2 (the “**Total Elected Share Consideration**”) exceeds the Maximum Aggregate Share Consideration, then the aggregate number of Loblaw Shares to be issued to any Shoppers Drug Mart Shareholder, subject to rounding in accordance with Section 3.6(a), shall be determined by multiplying the aggregate number of Loblaw Shares that would, but for this Section 3.3(a)(ii), be issued to such Shoppers Drug Mart Shareholder by a fraction, rounded to six decimal places, the numerator of which is the Maximum Aggregate Share Consideration and the denominator of which is the Total Elected Share Consideration; and such holder shall be deemed to have elected to receive Cash Consideration for the remainder of their Shoppers Drug Mart Shares for which, but for this Section 3.3(a)(ii), such holder would otherwise have received Loblaw Shares.

3.4 Post-Effective Time Procedures

On or immediately prior to the Effective Date, Loblaw shall (i) deposit or cause to be deposited with the Depositary, for the benefit of the Shoppers Drug Mart Shareholders entitled to receive cash pursuant to Section 3.1(f), the aggregate amount of cash that such Shoppers Drug Mart Shareholders are entitled to receive under the Arrangement; and (ii) deposit or cause to be deposited with the Depositary, for the benefit of and to be held on behalf of the Shoppers Drug Mart Shareholders entitled to receive Loblaw Shares pursuant to Section 3.1(f), certificates representing the Loblaw Shares that such Shoppers Drug Mart Shareholders are entitled to receive under the Arrangement (calculated without reference to whether any Shoppers Drug Mart Shareholder has exercised Dissent Rights), which certificates and cash shall be held by the Depositary as agent and nominee for Former Shoppers Drug Mart Shareholders for distribution to such Former Shoppers Drug Mart Shareholders in accordance with the provisions of Article 5 hereof.

3.5 Tax Elections

An Eligible Holder who receives Loblaw Shares under the Arrangement shall be entitled to make an income tax election pursuant to subsection 85(1) of the Tax Act, or subsection 85(2) of the Tax Act if such beneficial owner is a partnership, (and in each case, where applicable, the analogous provisions of provincial income tax law) with respect to the transfer of its Shoppers Drug Mart Shares to Loblaw and receipt of the Loblaw Shares by providing two signed copies of the necessary prescribed election form(s) to the Depositary within 90 days following the Effective Date, duly completed with the details of the number of Shoppers Drug Mart Shares transferred and the applicable agreed amounts for the purposes of such elections. Thereafter, subject to the election forms being correct and complete and complying with

the provisions of the Tax Act (and applicable provincial income tax law), the forms will be signed by Loblaw and returned to such Eligible Holder within 90 days after the receipt thereof by the Depositary for filing with the Canada Revenue Agency (or the applicable provincial taxing authority) by such Eligible Holder. Loblaw will not be responsible for the proper completion of any election form and, except for Loblaw's obligation to return (within 90 days after the receipt thereof by the Depositary) duly completed election forms which are received by the Depositary within 90 days of the Effective Date, Loblaw will not be responsible for any taxes, interest or penalties resulting from the failure by an Eligible Holder to properly complete or file the election forms in the form and manner and within the time prescribed by the Tax Act (or any applicable provincial legislation). In its sole discretion, Loblaw may choose to sign and return an election form received by the Depositary more than 90 days following the Effective Date, but Loblaw will have no obligation to do so.

3.6 No Fractional Loblaw Shares and Rounding of Cash Consideration

- (a) In no event shall any fractional Loblaw Shares be issued under this Plan of Arrangement. Where the aggregate number of Loblaw Shares to be issued to a Shoppers Drug Mart Shareholder as consideration under this Plan of Arrangement would result in a fraction of a Loblaw Share being issuable, then the number of Loblaw Shares to be issued to such Shoppers Drug Mart Shareholder shall be rounded down to the closest whole number and, in lieu of the issuance of a fractional Loblaw Share thereof, Loblaw will pay to each such holder a cash payment (rounded down to the nearest cent) determined by reference to the volume weighted average trading price of Loblaw Shares on the TSX for the five trading days on which such shares trade on the TSX immediately preceding the Effective Date.
- (b) If the aggregate cash amount which a Shoppers Drug Mart Shareholder is entitled to receive pursuant to Sections 3.1(f) and 3.3 would otherwise include a fraction of \$0.01, then the aggregate cash amount to which such Shoppers Drug Mart Shareholder shall be entitled to receive shall be rounded up to the nearest whole \$0.01.

3.7 Adjustments to Exchange Ratio

The Exchange Ratio shall be adjusted to reflect fully the effect of any stock split, reverse split, stock dividend (including any dividend or distribution of securities convertible into Loblaw Shares or Shoppers Drug Mart Shares, other than stock dividends paid in lieu of ordinary course dividends), consolidation, reorganization, recapitalization or other like change with respect to Loblaw Shares or Shoppers Drug Mart Shares occurring after the date of the Arrangement Agreement and prior to the Effective Time.

ARTICLE 4 DISSENT PROCEDURES

4.1 Rights of Dissent

Registered Shoppers Drug Mart Shareholders may exercise rights of dissent with respect to their Shoppers Drug Mart Shares pursuant to and in the manner set forth in section 190 of the CBCA as modified by the Interim Order and this Article 4 (the "**Dissent Rights**"), provided that, notwithstanding subsection 190(5) of the CBCA, written notice setting forth such a registered Shoppers Drug Mart Shareholder's objection to the Arrangement and exercise of Dissent Rights must be received by Shoppers Drug Mart not later than 5:00 p.m. (Toronto Time) on the business day which is two business days preceding the date of the Shoppers Drug Mart Shareholders' Meeting. Shoppers Drug Mart Shareholders

who duly exercise their Dissent Rights shall be deemed to have transferred their Shoppers Drug Mart Shares to Loblaw as of the Effective Time as set out in subsection 3.1(b) hereof and if:

- (a) ultimately are entitled to be paid the fair value for their Shoppers Drug Mart Shares by Loblaw, shall be paid the fair value of such Shoppers Drug Mart Shares, and will not be entitled to any other payment or consideration, including any payment that would be payable under the Arrangement had such holders not exercised their Dissent Rights; or
- (b) ultimately are not entitled, for any reason, to be paid the fair value for their Shoppers Drug Mart Shares by Loblaw shall be deemed to have participated in the Arrangement on the same basis as any non-dissenting Shoppers Drug Mart Shareholder.

4.2 Recognition of Dissenting Shareholders

From and after the Effective Time, in no case shall Loblaw, Shoppers Drug Mart or any other Person be required to recognize a Dissenting Shareholder as a holder of Shoppers Drug Mart Shares or as a holder of any securities of any of Loblaw, Shoppers Drug Mart or any of their respective subsidiaries and the names of the Dissenting Shareholders shall be deleted from the register of holders of Shoppers Drug Mart Shares. In addition to any other restrictions under Section 190 of the CBCA and, for greater certainty, holders of Shoppers Drug Mart Options, Shoppers Drug Mart DSUs and Shoppers Drug Mart RSUs shall not be entitled to exercise Dissent Rights.

ARTICLE 5 DELIVERY OF CONSIDERATION

5.1 Delivery of Share Consideration and Cash Consideration

- (a) Upon surrender to the Depositary for cancellation of a certificate which immediately prior to the Effective Time represented one or more outstanding Shoppers Drug Mart Shares, together with a duly completed and executed Letter of Transmittal and Election Form, and such additional documents and instruments as the Depositary may reasonably require, the holder of such surrendered certificate shall be entitled to receive in exchange therefor, and the Depositary shall deliver to such holder following the Effective Time (in each case, less any amounts withheld pursuant to Section **Error! Reference source not found.** hereof), (i) a certificate representing the number of Loblaw Shares to which such holder is entitled to receive under the Arrangement, as applicable; and (ii) a cheque for the cash consideration to which such holder is entitled to under the Arrangement, as applicable.
- (b) After the Effective Time and until surrendered for cancellation as contemplated by subsection 5.1(a) hereof, each certificate which immediately prior to the Effective Time represented one or more Shoppers Drug Mart Shares shall be deemed at all times to represent only the right to receive in exchange therefor the entitlements which the holder of such certificate is entitled to receive in accordance with Section 5.1(a) hereof.

5.2 Lost Certificates

In the event any certificate which immediately prior to the Effective Time represented one or more outstanding Shoppers Drug Mart Shares that were exchanged pursuant to Section 3.1(f) shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen or destroyed, the Depositary will issue in exchange for such lost, stolen or

destroyed certificate, the cash amount or the Loblaw Shares, or any combination thereof, that such Person is entitled to receive pursuant to Section 3.1(f) (and any dividends or distributions with respect thereto pursuant to Section 5.3) deliverable in accordance with such holder's Letter of Transmittal and Election Form. When authorizing the delivery of such consideration in exchange for any lost, stolen or destroyed certificate, the Person to whom the consideration is being delivered shall, as a condition precedent to the delivery of such consideration, give a bond satisfactory to Loblaw and the Depositary in such sum as Loblaw and the Depositary may direct or otherwise indemnify Loblaw and the Depositary in a manner satisfactory to Loblaw and the Depositary against any claim that may be made against Loblaw or the Depositary with respect to the certificate alleged to have been lost, stolen or destroyed.

5.3 Distributions with Respect to Unsurrendered Certificates

No dividend or other distribution declared or made after the Effective Time with respect to Loblaw Shares with a record date after the Effective Time shall be paid to the holder of any unsurrendered certificate which, immediately prior to the Effective Time, represented outstanding Shoppers Drug Mart Shares unless and until the holder of such certificate shall have complied with the provisions of Section 5.1 or Section 5.2 hereof. Subject to applicable law and to Section 5.4 hereof, at the time of such compliance, a Former Shoppers Drug Mart Shareholder entitled to receive Loblaw Shares shall receive, in addition to the delivery of a certificate representing the Loblaw Shares, a cheque for the amount of the dividend or other distribution with a record date after the Effective Time, without interest, theretofore paid with respect to such Loblaw Shares.

5.4 Withholding Rights

Loblaw and the Depositary shall be entitled to deduct and withhold from any dividend or consideration otherwise payable to any holder of Shoppers Drug Mart Shares, Shoppers Drug Mart Share Awards and Shoppers Drug Mart Options, such amounts as Loblaw or the Depositary are required to deduct and withhold with respect to such payment under the Tax Act, the United States *Internal Revenue Code of 1986* or any provision of provincial, state, local or foreign tax law, in each case as amended. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the holder of the Shoppers Drug Mart Shares, Shoppers Drug Mart Share Awards and Shoppers Drug Mart Options in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. To the extent that the amount so required or permitted to be deducted or withheld from any payment to a holder exceeds any cash component of the consideration otherwise payable to the holder, Loblaw and the Depositary are hereby authorized to sell or otherwise dispose of such portion of the consideration otherwise payable to the holder as is necessary to provide sufficient funds to Loblaw or the Depositary, as the case may be, to enable it to comply with such deduction or withholding requirement and Loblaw or the Depositary shall notify the holder thereof and remit the applicable portion of the net proceeds of such sale to the appropriate taxing authority, and shall remit to such holder any unapplied balance of the proceeds of such sale.

5.5 Extinction of Rights

Any certificate which immediately prior to the Effective Time represented outstanding Shoppers Drug Mart Shares that are exchanged pursuant to Section 3.1(f) and not deposited with all other instruments required by Section 5.1(a) on or prior to the sixth anniversary of the Effective Date, shall cease to represent a claim or interest of any kind or nature as a shareholder of Loblaw. On such date, the cash and Loblaw Shares (or cash in lieu of fractional interests therein) to which the former registered holder of the certificate referred to in the preceding sentence was ultimately entitled shall be deemed to

have been surrendered to Loblaw, together with all entitlements to dividends, distributions and interest thereon held for such former registered holder.

5.6 No Liens

Any exchange or transfer of securities pursuant to this Plan of Arrangement shall be free and clear of any liens, charges, security interests, encumbrances, mortgages, hypothecs, restrictions, adverse claims or other claims of third parties of any kind.

5.7 Paramountcy

From and after the Effective Time: (i) this Plan of Arrangement shall take precedence and priority over any and all Shoppers Drug Mart Shares and Shoppers Drug Mart Options issued prior to the Effective Time; (ii) the rights and obligations of the registered holders of Shoppers Drug Mart Shares, Shoppers Drug Mart Options, Shoppers Drug Mart DSUs and Shoppers Drug Mart RSUs, and Shoppers Drug Mart, Loblaw, the Depositary and any transfer agent or other depositary therefor in relation thereto, shall be solely as provided for in this Plan of Arrangement; and (iii) all actions, causes of action, claims or proceedings (actual or contingent and whether or not previously asserted) based on or in any way relating to any Shoppers Drug Mart Shares, Shoppers Drug Mart Options, Shoppers Drug Mart DSUs or Shoppers Drug Mart RSUs shall be deemed to have been settled, compromised, released and determined without liability except as set forth herein.

5.8 Illegality of Delivery of Loblaw Shares

Notwithstanding the foregoing, if it appears to Loblaw that it would be contrary to applicable law to issue Loblaw Shares pursuant to the Arrangement to a Shoppers Drug Mart Shareholder that is not a resident of Canada, the Loblaw Shares that otherwise would be issued to that person will be issued to the Depositary for sale by Depositary on behalf of that person. The Loblaw Shares so issued to the Depositary will be pooled and sold as soon as practicable after the Effective Date, on such dates and at such prices as the Depositary determines in its sole discretion. The Depositary shall not be obligated to seek or obtain a minimum price for any of the Loblaw Shares sold by it. Each such person will receive a pro rata share of the cash proceeds from the sale of the Loblaw Shares sold by the Depositary (less commissions, other reasonable expenses incurred in connection with the sale of the Loblaw Shares and any amount withheld in respect of taxes) in lieu of the Loblaw Shares themselves. The net proceeds will be remitted in the same manner as other payments pursuant to this Article 5. None of Shoppers Drug Mart, Loblaw or the Depositary will be liable for any loss arising out of any such sales.

ARTICLE 6 AMENDMENTS

6.1 Amendments to Plan of Arrangement

- (a) Loblaw and Shoppers Drug Mart may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time prior to the Effective Time, provided that each such amendment, modification and/or supplement must: (i) be set out in writing; (ii) be approved by Loblaw and Shoppers Drug Mart; (iii) be filed with the Court and, if made following the Shoppers Drug Mart Shareholders' Meeting, approved by the Court; and (iv) be communicated to Shoppers Drug Mart Shareholders if and as required by the Court.

- (b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by Shoppers Drug Mart at any time prior to the Shoppers Drug Mart Shareholders' Meeting (provided that Loblaw shall have consented thereto in writing) with or without any other prior notice or communication, and if so proposed and accepted by the Persons voting at the Shoppers Drug Mart Shareholders' Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.
- (c) Any amendment, modification or supplement to this Plan of Arrangement that is approved or directed by the Court following the Shoppers Drug Mart Shareholders' Meeting shall be effective only if: (i) it is consented to in writing by each of Loblaw and Shoppers Drug Mart (in each case, acting reasonably); and (ii) if required by the Court, it is consented to by holders of the Shoppers Drug Mart Shares, voting in the manner directed by the Court.
- (d) Any amendment, modification or supplement to this Plan of Arrangement may be made following the Effective Date unilaterally by Loblaw, provided that it concerns a matter which, in the reasonable opinion of Loblaw, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement and is not adverse to the economic interest of any former holder of Shoppers Drug Mart Shares or Shoppers Drug Mart Options and such amendments, modifications or supplements to the Plan of Arrangement need not be filed with Court or communicated to Shoppers Drug Mart Shareholders.

ARTICLE 7 FURTHER ASSURANCES

7.1 Notwithstanding

Notwithstanding that the transactions and events set out herein shall occur and shall be deemed to occur in the order set out in this Plan of Arrangement without any further act or formality, each of the Parties to the Arrangement Agreement shall make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by either of them in order to further document or evidence any of the transactions or events set out herein.

APPENDIX F

APPLICATION FOR FINAL ORDER

Court File No.

CV-13-10214-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

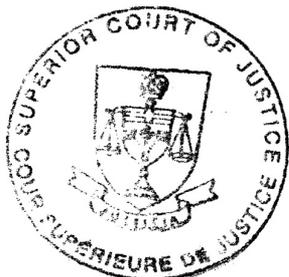
**IN THE IN THE MATTER OF AN APPLICATION UNDER SECTION 192 OF THE
CANADA BUSINESS CORPORATIONS ACT, R.S.C. 1985, c. C-44, AS AMENDED,**

**AND IN THE MATTER OF RULE 14.05(2) OF THE RULES OF CIVIL
PROCEDURE**

**AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT OF
SHOPPERS DRUG MART CORPORATION**

SHOPPERS DRUG MART CORPORATION

Applicant



NOTICE OF APPLICATION

TO THE RESPONDENTS:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the Applicant. The claim made by the Applicant appears on the following page.

THIS APPLICATION will come on for a hearing before a Judge presiding over the Commercial List on September 16, 2013, at 10 a.m. or as soon after that time as the application may be heard, at 330 University Avenue, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the Applicant's lawyer or, where the Applicant does not have a lawyer, serve it on the Applicant, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the Applicant's lawyer or, where the Applicant does not have a lawyer, serve it on the Applicant, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2 p.m. on the day before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date August 7, 2013

Issued by


Local registrar

Address of court office 330 University Avenue
Toronto, Ontario M5G 1R7

- TO: ALL HOLDERS OF COMMON SHARES OF SHOPPERS DRUG MART CORPORATION**
- AND TO: ALL HOLDERS OF OPTIONS OF SHOPPERS DRUG MART CORPORATION**
- AND TO: ALL HOLDERS OF DEFERRED SHARE UNITS OF SHOPPERS DRUG MART CORPORATION**
- AND TO: ALL HOLDERS OF RESTRICTED SHARE UNITS OF SHOPPERS DRUG MART CORPORATION**
- AND TO: THE DIRECTORS OF SHOPPERS DRUG MART CORPORATION**
- AND TO: THE AUDITOR OF SHOPPERS DRUG MART CORPORATION**
- AND TO: THE DIRECTOR APPOINTED UNDER THE CANADA BUSINESS CORPORATIONS ACT**
- AND TO: TORYS LLP**
79 Wellington Street West, Suite 3000
Box 270, TD Centre
Toronto, Ontario M5K 1N2
- James C. Tory
Andrew Gray
Tel. (416) 865.0040
Fax. (416) 865.7380

Lawyers for Loblaw Companies Limited

APPLICATION

1. THE APPLICANT MAKES APPLICATION FOR:

- (a) An interim order for advice and directions under section 192(4) of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended (the “**CBCA**”) in connection with a proposed arrangement (the “**Arrangement**”) of Shoppers Drug Mart Corporation (“**Shoppers Drug Mart**”);
- (b) A final order under sections 192(3) and 192(4) of the CBCA approving the Arrangement, substantially in the form described in the Management Proxy Circular of Shoppers Drug Mart attached as an exhibit to the affidavit to be filed in support of this Application, or as amended by this Court, pursuant to section 192 of the CBCA;
- (c) If necessary, an order abridging the time, or dispensing with the requirements for service of the application materials herein; and
- (d) Such further and other relief as this Court may deem just.

2. THE GROUNDS FOR THE APPLICATION ARE:

- (a) Shoppers Drug Mart is a corporation governed by the CBCA, with its common shares listed and traded on the Toronto Stock Exchange;
- (b) The Arrangement is an “arrangement” as defined in section 192(1) of the CBCA;
- (c) Section 192 of the CBCA;
- (d) All statutory procedures under the CBCA have been or will have been met by the return date of this Application;
- (e) Shoppers Drug Mart is a solvent corporation within the meaning of the CBCA;
- (f) It is not practicable for Shoppers Drug Mart to effect the Arrangement under any other provision of the CBCA;

- (g) The Arrangement is put forward in good faith;
- (h) The Arrangement is fair and reasonable;
- (i) The directions set out and shareholder approvals required pursuant to any Interim Order this Court may grant will have been followed and obtained by the return date of this Application;
- (j) Certain of the holders of common shares in the capital of Shoppers Drug Mart and other interested persons are resident outside of Ontario and will be served at their addresses as they appear on the books and records of Shoppers Drug Mart pursuant to rules 17.02(n) and 17.02(o) of the *Rules of Civil Procedure* and/or pursuant to the terms of any Interim Order this Court may grant;
- (k) Section 3(a)(10) of the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”), exempts from the registration requirements of the U.S. Securities Act those securities which are issued in exchange for *bona fide* outstanding securities, claims or property interests, or partly in exchange and partly for cash, where the terms and conditions of such issuance and exchange are approved after a hearing by a court upon the fairness of such terms and conditions, at which all persons to whom it is proposed to issue securities in such exchange shall have the right to appear. Based on the Court’s approval of the Arrangement, Loblaw Companies Limited (“**Loblaw**”) intends to rely upon this exemption under section 3(a)(10) of the U.S. Securities Act to issue shares of Loblaw to holders of common shares in the capital of Shoppers Drug Mart in the United States;
- (l) Rules 14.05(2), 14.05(3), 17.02 and 38 of the *Rules of Civil Procedure*;
- (m) National Instrument 54-101 – Communication with Beneficial Owners of Securities of a Reporting Issuer, of the Canadian Securities Administrators; and
- (n) Such further and other grounds as counsel may advise and this Court may permit.

3. THE FOLLOWING DOCUMENTARY EVIDENCE WILL BE USED AT THE HEARING OF THE APPLICATION:

- (a) Affidavit(s) to be sworn on behalf of Shoppers Drug Mart, with exhibits thereto;
and
- (b) Such further and other material as counsel may advise and this Court may permit.

August 7, 2013

OSLER, HOSKIN & HARCOURT LLP

Box 50, 1 First Canadian Place
Toronto, Canada M5X 1B8

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Laura K. Fric (LSUC #: 36545Q)
Raphael T. Eghan (LSUC#: 58887N)

Tel: (416) 362-2111
Fax: (416) 862-6666

Lawyers for the Applicant,
Shoppers Drug Mart Corporation

IN THE IN THE MATTER OF AN APPLICATION UNDER SECTION 192 OF THE CANADA BUSINESS CORPORATIONS ACT,
R.S.C. 1985, c. C-44, AS AMENDED,
AND IN THE MATTER OF RULE 14.05(2) OF THE RULES OF CIVIL PROCEDURE,
AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT OF SHOPPERS DRUG MART CORPORATION
SHOPPERS DRUG MART CORPORATION, APPLICANT

Court File No. *CN-13-10214-00CL*

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT
TORONTO

NOTICE OF APPLICATION

OSLER, HOSKIN & HARPCOURT LLP
Box 50, 1 First Canadian Place
Toronto, Canada M5X 1B8

Mark A. Gelowitz (LSUC #: 31857J)
Laura K. Fric (LSUC #: 36545Q)
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Tel: (416) 362-2111
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Lawyers for the Applicant,
Shoppers Drug Mart Corporation

Matter No: 1128956

APPENDIX G

INTERIM ORDER

Court File No. CV-13-10214-00CL



ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE) MONDAY, THE 12TH
JUSTICE NEWBOULD) DAY OF AUGUST, 2013

IN THE IN THE MATTER OF AN APPLICATION UNDER SECTION 192 OF THE CANADA BUSINESS CORPORATIONS ACT, R.S.C. 1985, c. C-44, AS AMENDED,

AND IN THE MATTER OF RULE 14.05(2) OF THE RULES OF CIVIL PROCEDURE

AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT OF SHOPPERS DRUG MART CORPORATION

INTERIM ORDER

THIS MOTION made by the Applicant, Shoppers Drug Mart Corporation (“Shoppers Drug Mart”), for an interim order for advice and directions pursuant to section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, (the “CBCA”) was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Motion, the Notice of Application issued on August 7, 2013 and the affidavit of Bradley Lukow sworn August 8, 2013, (the “Lukow Affidavit”), including the Plan of Arrangement, which is attached as Appendix E to the draft management proxy circular of Shoppers Drug Mart (the “Circular”), which is attached as Exhibit A to the Lukow Affidavit, and on hearing the submissions of counsel for Shoppers Drug Mart and

counsel for Loblaw Companies Limited (“Loblaw”), and on being advised that the Director appointed under the CBCA (the “Director”) does not consider it necessary to appear.

Definitions

1. **THIS COURT ORDERS** that all definitions used in this Interim Order shall have the meaning ascribed thereto in the Circular or otherwise as specifically defined herein.

The Meeting

2. **THIS COURT ORDERS** that Shoppers Drug Mart is permitted to call, hold and conduct a special meeting (the “Meeting”) of the holders of voting common shares (the “Shareholders”) in the capital of Shoppers Drug Mart to be held on September 12, 2013, at the Glenn Gould Studio, CBC Building, 250 Front Street West, Toronto, Ontario at 11:00 a.m. (Toronto Time) in order for the Shareholders to consider and, if determined advisable, pass the resolutions authorizing, adopting and approving, with or without variation, the Arrangement and the Plan of Arrangement (collectively the “Arrangement Resolution”);

3. **THIS COURT ORDERS** that the Meeting shall be called, held and conducted in accordance with the CBCA, the notice of special meeting of Shareholders, which accompanies the Circular, (the “Notice of Meeting”) and the articles and by-laws of Shoppers Drug Mart, subject to what may be provided hereafter and subject to further order of this court.

4. **THIS COURT ORDERS** that the record date (the “Record Date”) for determination of the shareholders entitled to notice of, and to vote at, the Meeting shall be August 12, 2013.

5. **THIS COURT ORDERS** that the only persons entitled to attend or speak at the Meeting shall be:

- a) the Shareholders or their respective proxyholders;
- b) the officers, directors, auditors and advisors of Shoppers Drug Mart;
- c) representatives and advisors of Loblaw;
- d) the Director; and
- e) other persons who may receive the permission of the Chair of the Meeting.

6. **THIS COURT ORDERS** that Shoppers Drug Mart may transact such other business at the Meeting as is contemplated in the Circular, or as may otherwise be properly before the Meeting.

Quorum

7. **THIS COURT ORDERS** that the Chair of the Meeting shall be determined by Shoppers Drug Mart and that the quorum at the Meeting shall be holders of not less than 20% of the Shoppers Drug Mart Shares entitled to vote at the Meeting being present in person or represented by proxy at the opening of the Meeting, provided that a quorum shall not be less than two persons.

Amendments to the Arrangement and Plan of Arrangement

8. **THIS COURT ORDERS** that Shoppers Drug Mart is authorized to make, subject to the terms of the Arrangement Agreement, and paragraph 9, below, such amendments, modifications or supplements to the Arrangement and the Plan of Arrangement as it may determine without any additional notice to the Shareholders, or others entitled to receive notice under paragraphs 12 and 13, hereof and the Arrangement and Plan of Arrangement, as so amended, modified or supplemented shall be the Arrangement and Plan of Arrangement to be

submitted to the Shareholders at the Meeting and shall be the subject of the Arrangement Resolution. Amendments, modifications or supplements may be made following the Meeting, but shall be subject to review and, if appropriate, further direction by this Honourable Court at the hearing for the final approval of the Arrangement.

9. **THIS COURT ORDERS** that, if any amendments, modifications or supplements to the Arrangement or Plan of Arrangement as referred to in paragraph 8, above, would, if disclosed, reasonably be expected to affect a Shareholder's decision to vote for or against the Arrangement Resolution, notice of such amendment, modification or supplement shall be distributed, subject to further order of this Honourable Court, by press release, newspaper advertisement, prepaid ordinary mail, or by the method most reasonably practicable in the circumstances, as Shoppers Drug Mart may determine.

Amendments to the Management Proxy Circular

10. **THIS COURT ORDERS** that Shoppers Drug Mart is authorized to make such amendments, revisions and/or supplements to the draft Circular as it may determine and the Circular, as so amended, revised and/or supplemental, shall be the Circular to be distributed in accordance with paragraphs 12 and 13.

Adjournments and Postponements

11. **THIS COURT ORDERS** that Shoppers Drug Mart, if it deems advisable and subject to the terms of the Arrangement Agreement, is specifically authorized to adjourn or postpone the Meeting on one or more occasions, without the necessity of first convening the Meeting or first obtaining any vote of the Shareholders respecting the adjournment or postponement or first setting a new Record Date, and notice of any such adjournment or postponement shall be given

by such method as Shoppers Drug Mart may determine is appropriate in the circumstances. This provision shall not limit the authority of the Chair of the Meeting in respect of adjournments and postponements.

Notice of Meeting

12. **THIS COURT ORDERS** that, in order to effect notice of the Meeting, Shoppers Drug Mart shall send the Circular (including the Notice of Application and this Interim Order), the Notice of Meeting, the form of proxy and the letter of transmittal and election form, along with such amendments or additional documents as Shoppers Drug Mart may determine are necessary or desirable and are not inconsistent with the terms of this Interim Order (collectively, the “Meeting Materials”), to the following:

- a) the registered Shareholders at 5:00 p.m. (Toronto Time) on the Record Date, at least twenty-one (21) days prior to the date of the Meeting, excluding the date of sending and the date of the Meeting, by one or more of the following methods:
 - i) by pre-paid ordinary or first class mail at the addresses of the Shareholders as they appear on the books and records of Shoppers Drug Mart, or its registrar and transfer agent, at 5:00 p.m. (Toronto Time) on the Record Date and if no address is shown therein, then the last address of the person known to the Corporate Secretary of Shoppers Drug Mart;
 - ii) by delivery, in person or by recognized courier service or inter-office mail, to the address specified in (i) above; or

- iii) by facsimile or electronic transmission to any Shareholder, who is identified to the satisfaction of Shoppers Drug Mart, who requests such transmission in writing and, if required by Shoppers Drug Mart, who is prepared to pay the charges for such transmission;
- b) non-registered Shareholders by providing sufficient copies of the Meeting Materials to intermediaries and registered nominees in a timely manner, in accordance with National Instrument 54-101 of the Canadian Securities Administrators;
- c) the respective directors and auditors of Shoppers Drug Mart, and to the Director by delivery in person, by recognized courier service, by pre-paid ordinary or first class mail or, with the consent of the person, by facsimile or electronic transmission, at least twenty-one (21) days prior to the date of the Meeting, excluding the date of sending and the date of the Meeting;

and that compliance with this paragraph shall constitute sufficient notice of the Meeting.

13. **THIS COURT ORDERS** that, in the event that Shoppers Drug Mart elects to distribute the Meeting Materials, Shoppers Drug Mart is hereby directed to distribute the Circular (including the Notice of Application, and this Interim Order), and any other communications or documents determined by Shoppers Drug Mart to be necessary or desirable (collectively, the “Court Materials”) to the holders of Shoppers Drug Mart Options, Shoppers Drug Mart Deferred Share Units and Shoppers Drug Mart Restricted Share Units by any method permitted for notice to Shareholders as set forth in paragraphs 12(a) or 12(b) above, or by email, concurrently with the distribution described in paragraph 12 of this Interim Order. Distribution

to such persons shall be to their addresses or email addresses as they appear on the books and records of Shoppers Drug Mart or its registrar and transfer agent at 5:00 p.m. (Toronto Time) on the Record Date.

14. **THIS COURT ORDERS** that accidental failure or omission by Shoppers Drug Mart to give notice of the meeting or to distribute the Meeting Materials or Court Materials to any person entitled by this Interim Order to receive notice, or any failure or omission to give such notice as a result of events beyond the reasonable control of Shoppers Drug Mart, or the non-receipt of such notice shall, subject to further order of this Honourable Court, not constitute a breach of this Interim Order nor shall it invalidate any resolution passed or proceedings taken at the Meeting. If any such failure or omission is brought to the attention of Shoppers Drug Mart, it shall use its best efforts to rectify it by the method and in the time most reasonably practicable in the circumstances.

15. **THIS COURT ORDERS** that Shoppers Drug Mart is hereby authorized to make such amendments, revisions or supplements to the Meeting Materials and Court Materials as Shoppers Drug Mart may determine in accordance with the terms of the Arrangement Agreement (“Additional Information”), and that notice of such Additional Information may, subject to paragraph 9, above, be distributed by press release, newspaper advertisement, pre-paid ordinary mail, by email to holders of Shoppers Drug Mart Options, Shoppers Drug Mart Deferred Share Units and Shoppers Drug Mart Restricted Share Units, or by the method most reasonably practicable in the circumstances, as Shoppers Drug Mart may determine.

16. **THIS COURT ORDERS** that distribution of the Meeting Materials and Court Materials pursuant to paragraphs 12 and 13 of this Interim Order shall constitute notice of the

Meeting and good and sufficient service of the within Application upon the persons described in paragraphs 12 and 13 and that those persons are bound by any orders made on the within Application. Further, no other form of service of the Meeting Materials or the Court Materials or any portion thereof need be made, or notice given or other material served in respect of these proceedings and/or the Meeting to such persons or to any other persons, except to the extent required by paragraph 9, above.

Solicitation and Revocation of Proxies

17. **THIS COURT ORDERS** that Shoppers Drug Mart is authorized to use the letter of transmittal and election form and proxies substantially in the form of the drafts accompanying the Circular, with such amendments and additional information as Shoppers Drug Mart may determine are necessary or desirable, subject to the terms of the Arrangement Agreement. Shoppers Drug Mart and Loblaw are authorized, at their expense, to solicit proxies, directly or through their officers, directors or employees, and through such agents or representatives as they may retain for that purpose, and by mail or such other forms of personal or electronic communication as they may determine. Shoppers Drug Mart may waive generally, in its discretion, the time limits set out in the Circular for the deposit or revocation of proxies by Shareholders, if Shoppers Drug Mart deems it advisable to do so.

18. **THIS COURT ORDERS** that Shareholders shall be entitled to revoke their proxies in accordance with section 148(4) of the CBCA (except as the procedures of that section are varied by this paragraph) provided that any instruments in writing delivered pursuant to s.148(4)(a)(i) of the CBCA: (a) may be deposited at the registered office of Shoppers Drug Mart or with the transfer agent and registrar of Shoppers Drug Mart as set out in the Circular; and (b) any such instruments must be received by Shoppers Drug Mart or its transfer agent and

registrar not later than 5:00 p.m. (Toronto Time) on the last business day prior to the Meeting or, in the event that the Meeting is adjourned or postponed, by 5:00 p.m. (Toronto Time) on the business day that is immediately preceding the date set for the Meeting (or any adjournment or postponement thereof).

Voting

19. **THIS COURT ORDERS** that the only persons entitled to vote in person or by proxy on the Arrangement Resolution, or such other business as may be properly brought before the Meeting, shall be those Shareholders who hold Shoppers Drug Mart Shares as of 5:00 p.m. (Toronto Time) on the Record Date. Illegible votes, spoiled votes, defective votes and abstentions shall be deemed to be votes not cast. Proxies that are properly signed and dated but which do not contain voting instructions shall be voted in favour of the Arrangement Resolution.

20. **THIS COURT ORDERS** that votes shall be taken at the Meeting on the basis of one vote per Shoppers Drug Mart Share and that in order for the Plan of Arrangement to be implemented, subject to further Order of this Honourable Court, the Arrangement Resolution must be passed, with or without variation, at the Meeting by:

an affirmative vote of at least two-thirds (66 2/3%) of the votes cast in respect of the Arrangement Resolution at the Meeting in person or by proxy by the Shareholders.

Such votes shall be sufficient to authorize Shoppers Drug Mart to do all such acts and things as may be necessary or desirable to give effect to the Arrangement and the Plan of Arrangement on a basis consistent with what is provided for in the Circular without the necessity of any

further approval by the Shareholders, subject only to final approval of the Arrangement by this Honourable Court.

21. **THIS COURT ORDERS** that in respect of matters properly brought before the Meeting pertaining to items of business affecting Shoppers Drug Mart (other than in respect of the Arrangement Resolution), each Shareholder is entitled to one vote for each Shoppers Drug Mart Share held.

Dissent Rights

22. **THIS COURT ORDERS** that each registered Shareholder shall be entitled to exercise Dissent Rights in connection with the Arrangement Resolution in accordance with section 190 of the CBCA (except as the procedures of that section are varied by this Interim Order and the Plan of Arrangement) provided that, notwithstanding subsection 190(5) of the CBCA, any Shareholder who wishes to dissent must, as a condition precedent thereto, provide written objection to the Arrangement Resolution to Shoppers Drug Mart in the form required by section 190 of the CBCA and the Arrangement Agreement, which written objection must be received by Shoppers Drug Mart not later than 5:00 p.m. (Toronto Time) on the day that is two business days immediately preceding the Meeting or any adjourned or postponement thereof, and must otherwise strictly comply with the requirements of the CBCA. For purposes of these proceedings, the “court” referred to in section 190 of the CBCA means the Ontario Superior Court of Justice (Commercial List).

23. **THIS COURT ORDERS** that, notwithstanding section 190(3) of the CBCA, Loblaw, not Shoppers Drug Mart, shall be required to offer to pay fair value, as of close of business on the day before the Effective Date, for Shoppers Drug Mart Shares held by Shareholders who

duly exercise Dissent Rights, and to pay the amount to which such Shareholders may be entitled pursuant to the terms of the Plan of Arrangement. In accordance with the Plan of Arrangement and the Circular, all references to the “corporation” in subsections 190(3) and 190(11) to 190(26), inclusive, of the CBCA (except for the second reference to the “corporation” in subsection 190(12) and the two references to the “corporation” in subsection 190(17)) shall be deemed to refer to Loblaw in place of the “corporation”, and Loblaw shall have all of the rights, duties and obligations of the “corporation” under subsections 190(11) to 190(26), inclusive, of the CBCA.

24. **THIS COURT ORDERS** that any Shareholder who duly exercises such Dissent Rights set out in paragraph 22 above and who:

- i) is ultimately determined by this Honourable Court to be entitled to be paid fair value for his, her or its Shoppers Drug Mart Shares, shall be deemed to have transferred those Shoppers Drug Mart Shares as of the Effective Time, without any further act or formality and free and clear of all liens, claims, encumbrances, charges, adverse interests or security interests to Loblaw in consideration for a payment in cash from Loblaw equal to such fair value; or
- ii) is for any reason ultimately determined by this Honourable Court not to be entitled to be paid fair value for his, her or its Shoppers Drug Mart Shares pursuant to the exercise of the Dissent Right, shall be deemed to have participated in the Arrangement for cash consideration on the same basis and at the same time as any non-dissenting Shareholder;

but in no case shall Shoppers Drug Mart, Loblaw, or any other person be required to recognize such Shareholders as holders of Shoppers Drug Mart Shares at or after the date upon which the Arrangement becomes effective and the names of such Shareholders shall be deleted from Shoppers Drug Mart's register of holders of Shoppers Drug Mart Shares at that time.

Hearing of Application for Approval of the Arrangement

25. **THIS COURT ORDERS** that upon approval by the Shareholders of the Plan of Arrangement in the manner set forth in this Interim Order, Shoppers Drug Mart may apply to this Honourable Court for final approval of the Arrangement.

26. **THIS COURT ORDERS** that distribution of the Notice of Application and the Interim Order in the Circular, when sent in accordance with paragraphs 12 and 13 shall constitute good and sufficient service of the Notice of Application and this Interim Order and no other form of service need be effected and no other material need be served unless a Notice of Appearance is served in accordance with paragraph 27.

27. **THIS COURT ORDERS** that any Notice of Appearance served in response to the Notice of Application shall be served on the solicitors for Shoppers Drug Mart, with a copy to counsel for Loblaw, as soon as reasonably practicable, and, in any event, no less than 3 days before the hearing of this Application at the following addresses:

OSLER, HOSKIN & HARCOURT LLP

Box 50, 1 First Canadian Place
Toronto, Canada M5X 1B8

Mark A. Gelowitz

Laura K. Fric

Raphael T. Eghan

Tel: (416) 362-2111

Fax: (416) 862-6666

Lawyers for the Applicant,
Shoppers Drug Mart Corporation

TORYS LLP

79 Wellington Street West, Suite 3000
Box 270, TD Centre
Toronto, Ontario M5K 1N2

James C. Tory

Andrew Gray

Tel. (416) 865.0040

Fax. (416) 865.7380

Lawyers for Loblaw Companies Limited

28. **THIS COURT ORDERS** that, subject to further order of this Honourable Court, the only persons entitled to appear and be heard at the hearing of the within application shall be:

- i) Shoppers Drug Mart;
- ii) Loblaw;
- iii) the Director ; and
- iv) any person who has filed a Notice of Appearance herein in accordance with the Notice of Application, this Interim Order and the *Rules of Civil Procedure*.

29. **THIS COURT ORDERS** that any materials to be filed by Shoppers Drug Mart in support of the within Application for final approval of the Arrangement may be filed up to one day prior to the hearing of the Application without further order of this Honourable Court.

30. **THIS COURT ORDERS** that in the event the within Application for final approval does not proceed on the date set forth in the Notice of Application, and is adjourned, only those persons who served and filed a Notice of Appearance in accordance with paragraph 27 shall be entitled to be given notice of the adjourned date.

Precedence

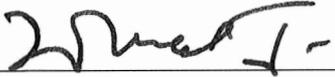
31. **THIS COURT ORDERS** that, to the extent of any inconsistency or discrepancy between this Interim Order and the terms of any instrument creating, governing or collateral to the Shoppers Drug Mart Shares, Shoppers Drug Mart Options, Shoppers Drug Mart Deferred Share Units and Shoppers Drug Mart Restricted Share Units, or the articles or by-laws of Shoppers Drug Mart, this Interim Order shall govern.

Extra-Territorial Assistance

32. **THIS COURT** seeks and requests the aid and recognition of any court or any judicial, regulatory or administrative body in any province of Canada and any judicial, regulatory or administrative tribunal or other court constituted pursuant to the Parliament of Canada or the legislature of any province and any court or any judicial, regulatory or administrative body of the United States or other country to act in aid of and to assist this Honourable Court in carrying out the terms of this Interim Order.

Variance

33. **THIS COURT ORDERS** that Shoppers Drug Mart shall be entitled to seek leave to vary this Interim Order upon such terms and upon the giving of such notice as this Honourable Court may direct.



ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

AUG 12 2013

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**IN THE IN THE MATTER OF AN APPLICATION UNDER SECTION 192 OF THE CANADA BUSINESS CORPORATIONS ACT,
R.S.C. 1985, c. C-44, AS AMENDED,
AND IN THE MATTER OF RULE 14.05(2) OF THE RULES OF CIVIL PROCEDURE,
AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT OF SHOPPERS DRUG MART CORPORATION
SHOPPERS DRUG MART CORPORATION, APPLICANT/MOVING PARTY**

Court File No. CV-13-10214-00CL

ONTARIO
**SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
PROCEEDING COMMENCED AT
TORONTO

INTERIM ORDER

OSLER, HOSKIN & HARCOURT LLP
Box 50, 1 First Canadian Place
Toronto, Canada M5X 1B8

Mark A. Gelowitz (LSUC #: 31857J)
Laura K. Fric (LSUC #: 36545Q)
Raphael T. Eghan (LSUC#: 58887N)

Tel: (416) 362-2111
Fax: (416) 862-6666

Lawyers for the Applicant/Moving Party,
Shoppers Drug Mart Corporation

Matter No: 1128956

APPENDIX H

RBC CAPITAL MARKETS FAIRNESS OPINION



RBC Capital Markets®

RBC Dominion Securities Inc.
P.O. Box 50
Royal Bank Plaza
Toronto, Ontario M5J 2W7
Telephone: (416) 842-2000

July 14, 2013

The Special Committee of the Board of Directors and the Board of Directors
Shoppers Drug Mart Corporation
243 Consumers Road
Toronto, Ontario
M2J 4W8

To the Special Committee and the Board:

RBC Dominion Securities Inc. (“RBC”), a member company of RBC Capital Markets, understands that Shoppers Drug Mart Corporation (the “Company”) and Loblaw Companies Limited (“Loblaw”) propose to enter into an agreement to be dated July 14, 2013 (the “Arrangement Agreement”), which will provide, among other things, for the acquisition of all of the outstanding common shares of the Company (the “Shares”) by Loblaw by way of a plan of arrangement under the provisions of the *Canada Business Corporations Act* (the “Arrangement”). RBC also understands that, pursuant to the Arrangement, the holders of Shares (the “Shareholders”) will receive, for each Share held, either (i) \$61.54 in cash or (ii) 1.29417 common shares of Loblaw (the “Loblaw Shares”) plus \$0.01 in cash, at the election of each Shareholder and subject to pro rata as set out in the Arrangement. The terms of the Arrangement will be more fully described in a management information circular (the “Circular”), which will be mailed to Shareholders in connection with the Arrangement.

RBC understands that the Company, Loblaw and George Weston Limited (“GWL”), the controlling shareholder of Loblaw, propose to enter into an agreement to be dated July 14, 2013 (the “Voting Agreement”) pursuant to which, among other things, GWL will provide evidence of its approval of the Arrangement to the Toronto Stock Exchange (the “TSX”) and will vote all of the Loblaw Shares held by it in favour of the Arrangement at any requisite meeting of the holders of Loblaw Shares. RBC also understands that Loblaw and GWL propose to enter into an agreement to be dated July 14, 2013 (the “Subscription Agreement”) pursuant to which GWL will subscribe for, and Loblaw will issue to GWL, approximately 10.5 million Loblaw Shares at a price of \$47.55 per Loblaw Share, being the closing market price of the Loblaw Shares on the TSX on July 12, 2013, the last trading day immediately prior to the proposed date of the Subscription Agreement.

RBC understands that a committee (the “Special Committee”) of the board of directors (the “Board”) of the Company has been constituted to consider the Arrangement and make recommendations thereon to the Board. The Company has retained RBC to provide advice and assistance to the Special Committee and the Board in evaluating the Arrangement, including the preparation and delivery to the Special Committee and the Board of RBC’s opinion (the “Fairness Opinion”) as to the fairness of the consideration under the Arrangement from a financial point of view to the Shareholders. RBC has not prepared a valuation of the Company, Loblaw or any of their respective securities or assets and the Fairness Opinion should not be construed as such.

All dollar amounts herein are expressed in Canadian dollars, unless stated otherwise.

Engagement

The Company initially contacted RBC regarding a potential advisory assignment in March 2013, and RBC was formally engaged by the Company through an agreement between the Company and RBC (the "Engagement Agreement") dated April 29, 2013. The terms of the Engagement Agreement provide that RBC is to be paid a fee for its services as financial advisor, including fees that are contingent on a change of control of the Company or certain other events. In addition, RBC is to be reimbursed for its reasonable out-of-pocket expenses and is to be indemnified by the Company in certain circumstances. RBC consents to the inclusion of the Fairness Opinion in its entirety and a summary thereof in the Circular and to the filing thereof, as necessary, by the Company with the securities commissions or similar regulatory authorities in each province of Canada.

Relationship With Interested Parties

Neither RBC, nor any of its affiliates is an insider, associate or affiliate (as those terms are defined in the Securities Act (Ontario)) of the Company, Loblaw or any of their respective associates or affiliates. RBC has not been engaged to provide any financial advisory services nor has it participated in any financing involving the Company, Loblaw or any of their respective associates or affiliates, within the past two years, other than the services provided under the Engagement Agreement and as described herein. In the past two years, RBC has acted in the following capacities for the Company: (i) joint bookrunner of concurrent \$225 million and \$275 million medium term note offerings in May 2013, and (ii) financial advisor in connection with various potential strategic transaction alternatives. In the past two years, RBC has acted in the following capacities for Loblaw and its associates and affiliates: (i) joint bookrunner of a \$460 million trust unit offering and concurrent \$400 million and \$200 million senior unsecured debenture offerings of Choice Properties Real Estate Investment Trust in July 2013, and (ii) joint bookrunner of a \$350 million medium term note offering of GWL in October 2011. There are no understandings, agreements or commitments between RBC and the Company, Loblaw or any of their respective associates or affiliates with respect to any future business dealings. RBC may, in the future, in the ordinary course of its business, perform financial advisory or investment banking services for the Company, Loblaw or any of their respective associates or affiliates. Royal Bank of Canada, controlling shareholder of RBC, provides banking services to the Company, Loblaw and certain of their respective associates and affiliates in the normal course of business.

RBC acts as a trader and dealer, both as principal and agent, in major financial markets and, as such, may have had and may in the future have positions in the securities of the Company, Loblaw or any of their respective associates or affiliates and, from time to time, may have executed or may execute transactions on behalf of such companies or clients for which it received or may receive compensation. As an investment dealer, RBC conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including with respect to the Company, Loblaw, GWL or the Arrangement.

Credentials of RBC Capital Markets

RBC is one of Canada's largest investment banking firms, with operations in all facets of corporate and government finance, corporate banking, mergers and acquisitions, equity and fixed income sales and trading and investment research. RBC Capital Markets also has significant operations in the United States and internationally. The Fairness Opinion expressed herein represents the opinion of RBC and the form and content herein have been approved for release by a committee of its directors, each of whom is experienced in merger, acquisition, divestiture and fairness opinion matters.

Scope of Review

In connection with our Fairness Opinion, we have reviewed and relied upon or carried out, among other things, the following:

1. the most recent draft, dated July 14, 2013, of the Arrangement Agreement;
2. the most recent draft, dated July 14, 2013, of the Voting Agreement;
3. the most recent draft, dated July 13, 2013, of the Subscription Agreement;
4. audited financial statements of each of the Company and Loblaw for each of the five years ended January 3, 2009, January 2, 2010, January 1, 2011, December 31, 2011 and December 29, 2012;
5. the unaudited interim report of the Company for the quarter ended March 23, 2013 and the draft unaudited interim report of the Company for the quarter ended June 15, 2013;
6. the unaudited interim report of Loblaw for the quarter ended March 23, 2013;
7. the annual reports of each of the Company and Loblaw for each of the two years ended December 31, 2011 and December 29, 2012;
8. the Notice of Annual Meeting of Shareholders and Management Proxy Circulars of the Company for each of the two years ended December 31, 2011 and December 29, 2012;
9. the Management Proxy Circulars of Loblaw for each of the two years ended December 31, 2011 and December 29, 2012;
10. annual information forms of each of the Company and Loblaw for each of the two years ended December 31, 2011 and December 29, 2012;
11. unaudited projected financial results of the Company on a consolidated basis, prepared by management of the Company, for each of the years ending on the Saturday closest to December 31, 2013 through December 31, 2017;
12. summary unaudited projected financial results of Loblaw on a consolidated basis, prepared by management of Loblaw, for the quarter ended June 15, 2013 and for each of the years ending on the Saturday closest to December 31, 2013 through December 31, 2017;
13. discussions with senior management of each of the Company and Loblaw;
14. discussions with the legal counsel of each of the Company and Loblaw;
15. publicly available information relating to the business, operations, financial performance and stock trading history of the Company, Loblaw and other selected public companies considered by us to be relevant;
16. publicly available information with respect to other transactions of a comparable nature considered by us to be relevant;
17. publicly available information regarding the North American retail drug store and grocery industries;
18. representations contained in certificates addressed to us, dated as of the date hereof, from senior officers of each of the Company and Loblaw as to the completeness and accuracy of the information upon which the Fairness Opinion is based; and
19. such other corporate, industry and financial market information, investigations and analyses as RBC considered necessary or appropriate in the circumstances.

RBC has not, to the best of its knowledge, been denied access by the Company or Loblaw to any information requested by RBC. As the auditors of each of the Company and Loblaw declined to permit RBC to rely upon information provided by them as part of a due diligence review, RBC did not meet with the auditors of either the Company or Loblaw and has assumed the accuracy and fair presentation of and relied upon the consolidated financial statements of each of the Company and Loblaw and the reports of the auditors thereon.

Assumptions and Limitations

With the Special Committee's and the Board's approval and as provided for in the Engagement Agreement, RBC has relied upon the completeness, accuracy and fair presentation of all of the financial and other information, data, advice, opinions or representations obtained by it from public sources, senior management of each of the Company and Loblaw, and their respective consultants and advisors (collectively, the "Information" as relates to the Company and its subsidiaries, and the "Loblaw Information" as relates to Loblaw and its subsidiaries). The Fairness Opinion is conditional upon such completeness, accuracy and fair presentation of such Information and Loblaw Information. Subject to the exercise of professional judgment and except as expressly described herein, we have not attempted to verify independently the completeness, accuracy or fair presentation of any of the Information or Loblaw Information.

Senior officers of the Company have represented to RBC in a certificate delivered as of the date hereof, among other things, that (i) the Information (as defined above) provided orally by, or in the presence of, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer of the Company or in writing by the Company or any of its subsidiaries or their respective agents to RBC for the purpose of preparing the Fairness Opinion was, at the date the Information was provided to RBC, and is at the date hereof complete, true and correct in all material respects, and did not and does not contain any untrue statement of a material fact in respect of the Company, its subsidiaries or the Arrangement and did not and does not omit to state a material fact in respect of the Company, its subsidiaries or the Arrangement necessary to make the Information or any statement contained therein not misleading in light of the circumstances under which the Information was provided or any statement was made; and (ii) since the dates on which the Information was provided to RBC, except as disclosed in writing to RBC, there has been no material change in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of the Company or any of its subsidiaries and no material change has occurred in the Information or any part thereof which would have or which would reasonably be expected to have a material effect on the Fairness Opinion.

Senior officers of Loblaw have represented to RBC in a certificate delivered as of the date hereof, among other things, that the Loblaw Information (as defined above) provided orally by, or in the presence of, the Executive Chairman and the Chief Financial Officer of Loblaw and representatives of the Company, to RBC and the Company at the management presentation on July 13, 2013 for the purpose of preparing the Fairness Opinion was, at such date, and is at the date hereof true and correct in all material respects, and did not and does not contain any untrue statement of a material fact in respect of Loblaw and its subsidiaries, taken as a whole.

In preparing the Fairness Opinion, RBC has made several assumptions, including that all of the conditions required to implement the Arrangement will be met.

The Fairness Opinion is rendered on the basis of securities markets, economic, financial and general business conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of the Company, Loblaw and their respective subsidiaries and affiliates, as they were reflected in the Information and Loblaw Information and as they have been represented to

RBC in discussions with management of each of the Company and Loblaw. In its analyses and in preparing the Fairness Opinion, RBC made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of RBC or any party involved in the Arrangement.

The Fairness Opinion has been provided for the use of the Special Committee and the Board and may not be used by any other person or relied upon by any other person other than the Special Committee and the Board without the express prior written consent of RBC. The Fairness Opinion is given as of the date hereof and RBC disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Fairness Opinion which may come or be brought to RBC's attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Fairness Opinion after the date hereof, RBC reserves the right to change, modify or withdraw the Fairness Opinion.

RBC believes that its analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the Fairness Opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. The Fairness Opinion is not to be construed as a recommendation to any Shareholder as to whether to vote in favour of the Arrangement.

Fairness Analysis

Approach to Fairness

In considering the fairness of the consideration under the Arrangement from a financial point of view to the Shareholders, RBC principally considered and relied upon the following: (i) a comparison of the consideration under the Arrangement to the results of a discounted cash flow analysis of the Company; (ii) a comparison of selected financial multiples, to the extent publicly available, of selected precedent transactions to the multiples implied by the consideration under the Arrangement; and (iii) a comparison of the consideration under the Arrangement to the recent market trading prices of the Shares. RBC also reviewed and compared selected financial multiples for North American drug store companies whose securities are publicly traded to the multiples implied by the consideration under the Arrangement. Given that public company values generally reflect minority discount values rather than "en bloc" values, RBC did not rely on this methodology.

Fairness Conclusion

Based upon and subject to the foregoing, RBC is of the opinion that, as of the date hereof, the consideration under the Arrangement is fair from a financial point of view to the Shareholders.

Yours very truly,

RBC Dominion Securities Inc.

RBC DOMINION SECURITIES INC.

RBC CAPITAL MARKETS

APPENDIX I

SECTION 190 OF THE CANADA BUSINESS CORPORATIONS ACT

SECTION 190 OF THE CANADA BUSINESS CORPORATIONS ACT

- 190.(1) Right to dissent — Subject to sections 191 and 241, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 192(4)(d) that affects the holder or if the corporation resolves to
- (a) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;
 - (b) amend its articles under section 173 to add, change or remove any restriction on the business or businesses that the corporation may carry on;
 - (c) amalgamate otherwise than under section 184;
 - (d) be continued under section 188;
 - (e) sell, lease or exchange all or substantially all its property under subsection 189(3); or
 - (f) carry out a going-private transaction or a squeeze-out transaction.
- (2) Further right — A holder of shares of any class or series of shares entitled to vote under section 176 may dissent if the corporation resolves to amend its articles in a manner described in that section.
- (2.1) If one class of shares — The right to dissent described in subsection (2) applies even if there is only one class of shares.
- (3) Payment for shares — In addition to any other right the shareholder may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which the shareholder dissents or an order made under subsection 192(4) becomes effective, to be paid by the corporation the fair value of the shares in respect of which the shareholder dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.
- (4) No partial dissent — A dissenting shareholder may only claim under this section with respect to all the shares of a class held on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.
- (5) Objection — A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of their right to dissent.
- (6) Notice of resolution — The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn their objection.

- (7) Demand for payment — A dissenting shareholder shall, within twenty days after receiving a notice under subsection (6) or, if the shareholder does not receive such notice, within twenty days after learning that the resolution has been adopted, send to the corporation a written notice containing
- (a) the shareholder's name and address;
 - (b) the number and class of shares in respect of which the shareholder dissents; and
 - (c) a demand for payment of the fair value of such shares.
- (8) Share certificate — A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which the shareholder dissents to the corporation or its transfer agent.
- (9) Forfeiture — A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.
- (10) Endorsing certificate — A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.
- (11) Suspension of rights — On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than to be paid the fair value of their shares as determined under this section except where
- (a) the shareholder withdraws that notice before the corporation makes an offer under subsection (12),
 - (b) the corporation fails to make an offer in accordance with subsection (12) and the shareholder withdraws the notice, or
 - (c) the directors revoke a resolution to amend the articles under subsection 173(2) or 174(5), terminate an amalgamation agreement under subsection 183(6) or an application for continuance under subsection 188(6), or abandon a sale, lease or exchange under subsection 189(9), in which case the shareholder's rights are reinstated as of the date the notice was sent.
- (12) Offer to pay — A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice
- (a) a written offer to pay for their shares in an amount considered by the directors of the corporation to be the fair value, accompanied by a statement showing how the fair value was determined; or
 - (b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.
- (13) Same terms — Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.

- (14) Payment — Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.
- (15) Corporation may apply to court — Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.
- (16) Shareholder application to court — If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.
- (17) Venue — An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province
- (18) No security for costs — A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).
- (19) Parties — On an application to a court under subsection (15) or (16),
 - (a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and
 - (b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of their right to appear and be heard in person or by counsel.
- (20) Power of court — On an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.
- (21) Appraisers — A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.
- (22) Final order — The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of the shares as fixed by the court.
- (23) Interest — A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.
- (24) Notice that subsection (26) applies — If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.
- (25) Effect where subsection (26) applies — If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24), may

- (a) withdraw their notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to their full rights as a shareholder; or
 - (b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.
- (26) Limitation — A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that
- (a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or
 - (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

QUESTIONS MAY BE DIRECTED TO THE PROXY SOLICITOR



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