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# Loblaw Companies Limited

## *Management Proxy Circular*

### *Solicitation of Proxies*

This Management Proxy Circular (the “Circular”) is furnished in connection with the solicitation by the management of LOBLAW COMPANIES LIMITED (the “Corporation”) of proxies to be used at the Annual Meeting of Shareholders of the Corporation (the “Meeting”) to be held on Wednesday, April 30, 2003, at 11:00 a.m. (local time) in Constitution Hall, Room 105 Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario, M5V 2W6 or any adjournment thereof. The cost of such solicitation will be borne by the Corporation.

At the Meeting, shareholders will act upon the matters outlined in the Notice of Annual Meeting accompanying this Circular including the election of directors, the re-appointment of the auditor and the shareholder proposal attached as Schedule C. In addition, the Corporation’s management will report on the performance of the Corporation and respond to questions from shareholders.

### *Revocation of Proxies*

A registered shareholder who has given a proxy may revoke the proxy by an instrument in writing executed by him/her or by his/her attorney authorized in writing or, if the shareholder is a corporation, by its duly authorized officer(s) or attorney authorized in writing, and deposited either at the registered office of the Corporation, Suite 1500, 22 St. Clair Avenue East, Toronto, Ontario, M4T 2S8, or at the offices of the Corporation’s transfer agent, Computershare Trust Company of Canada, 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1 (the “Transfer Agent”), at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used, or with the Chairman of the Meeting on the day of the Meeting or adjournment thereof prior to the commencement of the Meeting.

A Non-registered Shareholder (as defined below) may revoke a voting instruction form or a waiver of the right to receive meeting materials and to vote given to an intermediary at any time by written notice to the intermediary, except that an intermediary is not required to act on a revocation of a voting instruction form or of a waiver of the right to receive materials and to vote that is not received by the intermediary at least 7 days prior to the Meeting.

### *Non-Registered Shareholders*

If common shares of the Corporation (“Common Shares”) are not registered in the name of the shareholder (“Non-registered Shareholder”), they will be held in the name of a “nominee”, which is usually a trust company, securities broker or other financial institution. The nominee is required to seek the instructions from the Non-registered Shareholder as to how to vote such Common Shares. For that reason, Non-registered Shareholders should have received this Circular from their respective nominees, together with a voting instruction form. Each nominee has its own signing and return instructions, which Non-registered Shareholders should follow carefully to ensure their shares will be voted in accordance with their instructions.

Since the Corporation does not have access to the names of its Non-registered Shareholders, if a Non-registered Shareholder wishes to attend the Meeting, the Corporation will have no record of the Non-registered Shareholder’s shareholdings or of their entitlement to vote, unless the nominee has appointed the Non-registered Shareholder as proxyholder. Therefore, if a Non-registered Shareholder wishes to attend

and vote in person at the Meeting, a Non-registered Shareholder's name should be placed in the space provided on the voting instruction form sent by respective nominees. By doing so, a Non-registered Shareholder is instructing the nominee to appoint such Non-registered Shareholder as proxyholder. Non-registered Shareholders should sign and follow the return instructions provided by individual nominees. Non-registered Shareholders who will be voting at the Meeting need not complete the voting instruction portion of the form.

*Non-registered Shareholders should follow the instructions on the forms they receive and contact their intermediaries promptly if they need assistance.*

#### *Voting and Exercise of Discretion by Proxyholder*

The Common Shares represented by properly executed and returned proxies in favour of the persons designated in the printed portion of the enclosed form of proxy will be voted or not voted on any ballot that may be called for with respect to any matter referred to therein in accordance with the instructions made in the proxy. **In the absence of such instructions, such Common Shares will be voted for the election of the directors, for the re-appointment of the auditor and for the Shareholder Proposal attached as Schedule C.**

The proxy confers discretionary authority upon the persons named therein with respect to any amendments or variations to matters identified in the Notice of Annual Meeting and with respect to any other matters which may properly come before the Meeting. **The Common Shares represented by proxies in favour of management nominees will be voted with respect to any such matter in the manner directed by management.** The management of the Corporation is not aware of any amendments or variations or other matters to come before the Meeting.

#### *Record Date for Voting*

Holders of Common Shares as at the close of business April 1, 2003 (the "Record Date") are entitled to one vote at the Meeting for each Common Share shown as registered in such holder's name on such date.

#### *Voting Securities*

The Corporation currently has 275,318,714 Common Shares issued and outstanding.

#### *Controlling Shareholder*

George Weston Limited beneficially owns directly or indirectly through Weston Food Distribution Inc. and Weston Holdings Limited 169,576,651 Common Shares or 61.59% of the outstanding Common Shares. Mr. W. Galen Weston beneficially owns or controls, through Wittington Investments, Limited and affiliated companies, 82,693,979 or 62.5% of the outstanding common shares of George Weston Limited.

#### *Votes Required for Approval*

A majority of votes cast, in person or by proxy, is required to approve each of the items specified in the Notice of Annual Meeting which accompanies this Circular.

#### *Voting Confidentiality*

In order to preserve the confidentiality of individual shareholder votes, proxies are counted and tabulated by the Transfer Agent. This function is performed independently of the Corporation. Proxies are only referred to the Corporation in cases where a shareholder clearly intends to communicate an individual position to management or when it is necessary to do so to meet the requirements of applicable law.

## Election of Directors

On March 5, 2003, the Board of Directors, in accordance with the by-laws of the Corporation, determined that the number of directors to be elected at the Meeting would be 13. It is proposed that the persons named below be nominated for election as directors of the Corporation. With the exception of Thomas C. O'Neill, all of the proposed nominees are currently members of the Board of Directors and have been since the dates indicated below. Management does not believe that any of the nominees will be unable to serve as a director, but if that occurs for any reason prior to the Meeting, **the persons named in the enclosed form of proxy may vote for another nominee at their discretion.** Each director will hold office until the next annual meeting or until the director resigns or a successor is elected or appointed.

The table below provides information with respect to each of the nominees, including the number of Common Shares beneficially owned by them or over which they exercise control or direction and the number of deferred share units of the Corporation held by them on March 5, 2003. Biographies and current committee responsibilities of these nominees are attached as Schedule A. The independence and relatedness of directors is discussed under Statement of Corporate Governance Practices.

### *Information as to Proposed Nominees for Election as Directors*

	Age	Director Since	Common Shares	Deferred Share Units	Securities of George Weston Limited
<b>John M. Cassaday</b> , Toronto, Ontario President and Chief Executive Officer of Corus Entertainment Inc. (media and production company)	49	1999	5,865	2,005	–
<b>Camilla H. Dalglish</b> , Toronto, Ontario Corporate Director	65	1991	800	1,931	301,560 <sup>i</sup> 20,000 <sup>ii</sup> 40,000 <sup>iii</sup>
<b>Robert J. Dart</b> , Toronto, Ontario Vice Chairman of Wittington Investments, Limited (an affiliate of the Corporation and investment company)	64	1994	5,000	–	35,000 <sup>i</sup> 2,000 <sup>ii</sup> 4,000 <sup>iii</sup>
<b>Anthony S. Fell</b> , Toronto, Ontario Chairman of RBC Capital Markets Inc. (investment and financial company)	64	2001	10,000	1,125	–
<b>Anne L. Fraser</b> , Calgary, Alberta Corporate Director	62	2000	500	–	1,500 <sup>i</sup> 500 <sup>ii</sup> 1,065 <sup>iv</sup>
<b>Anthony R. Graham</b> , Toronto, Ontario President of Wittington Investments, Limited (an affiliate of the Corporation and investment company)	46	1999	10,000	2,005	10,000 <sup>i</sup> 1,156 <sup>iv</sup>
<b>John A. Lederer</b> , Toronto, Ontario President of the Corporation	47	2002	50,000	–	6,000 <sup>i</sup>
<b>Pierre Michaud</b> , Montreal, Quebec Chairman of Provigo Inc. (a subsidiary of the Corporation) and Co-Chairman of Reno-Depot Inc. (building and hardware retailing Company)	59	1999	85,284	–	–
<b>Thomas C. O'Neill</b> , <sup>1</sup> Toronto, Ontario Corporate Director, former Chairman, PricewaterhouseCoopers Consulting (accounting and consulting firm)	59	proposed nominee	2,000	–	–

	Age	Director Since	Common Shares	Deferred Share Units	Securities of George Weston Limited
G. Joseph Reddington, Lititz, Pennsylvania Chairman and Chief Executive Officer of Breuners Home Furnishings Corporation (retail furniture company)	61	1994	3,000	1,844	–
T. Iain Ronald, Toronto, Ontario Corporate Director	70	1992	6,000	1,940	–
W. Galen Weston, Toronto, Ontario Chairman of the Corporation	62	1972	3,967,984 169,576,651	–	82,693,979 <sup>i</sup>
Joseph H. Wright, Toronto, Ontario Managing Partner of Barnagain Capital (investment company)	60	1996	7,000	2,088	–

<sup>1</sup> Mr. O'Neill was Chairman and a partner of PricewaterhouseCoopers Consulting for at least the past five years.

<sup>i</sup> Common Shares of George Weston Limited  
<sup>ii</sup> Preferred Shares Series I of George Weston Limited  
<sup>iii</sup> Preferred Shares Series II of George Weston Limited  
<sup>iv</sup> Deferred Share Units of George Weston Limited

### Re-Appointment of Auditor

It is proposed that KPMG LLP Chartered Accountants be re-appointed as auditor of the Corporation to hold office until the next annual meeting of shareholders in 2004. KPMG LLP have served as auditor of the Corporation for more than 10 years.

For the years 2002 and 2001, KPMG LLP and its affiliates received fees as detailed below:

	2002	2001
	(\$thousands)	
KPMG LLP		
Audit Services	1,200	1,087
Audit-related services	264	340
Tax Related Services	384	89
Other Services	73	165
<b>Total Fees</b>	<b>1,921</b>	<b>1,681</b>

### Shareholder Proposal

Set out in Schedule C to this Circular is a shareholder proposal that has been submitted for consideration at the Meeting and the response of management and the Board of Directors. The proposal would require a simple majority of the votes cast at the Meeting in order to be approved.

#### *Shareholder Proposals for Next Year's Annual Meeting*

The *Canada Business Corporations Act* permits certain eligible shareholders of the Corporation to submit shareholder proposals to the Corporation, which proposals may be included in a management proxy circular relating to an annual meeting of shareholders. The final date by which the Corporation must receive shareholder proposals for the annual meeting of shareholders to be held in 2004 is December 14, 2003.

## Executive Compensation

The following table sets forth compensation paid by the Corporation and its subsidiaries to the persons who were at the end of 2002 the five most highly compensated policy making executive officers of the Corporation and its principal subsidiaries as required by applicable legislation (collectively the “Named Executive Officers”) for services rendered in all capacities to the Corporation or a subsidiary for the years 2002, 2001 and 2000.

### Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Other Annual Compensation	Long-Term Compensation		All Other Compensation
		Salary (\$)	Bonus (\$)		Awards Securities Under Options/SARs Granted <sup>1</sup>	Payouts Long-Term Incentive Plan Payouts (\$)	
W. Galen Weston Chairman of the Corporation	2002	800,000	500,000	–	–	–	–
	2001	1,200,000	500,000	–	41,240	–	–
	2000	800,000	500,000	–	187,500	–	–
John A. Lederer President of the Corporation	2002	1,200,000	781,500	–	–	–	–
	2001	1,200,000	630,732	–	164,950	–	–
	2000	600,000	473,385	–	187,500	–	–
David K. Bragg President, Loblaw Properties Limited	2002	330,000	242,499	–	–	–	–
	2001	330,000	263,696	–	–	–	–
	2000	300,000	276,950	–	65,650	–	–
David R. Jeffs President, Westfair Foods Ltd.	2002	600,000	393,999	–	–	–	–
	2001	583,333	329,767	–	100,000	–	–
	2000	350,000	266,991	–	98,450	–	–
Donald G. Reid President, President’s Choice Bank	2002	600,000	393,566	–	–	–	–
	2001	500,000	388,833	–	–	–	–
	2000	450,000	400,787	–	125,250	–	–

<sup>1</sup> Common Shares of the Corporation

### Option/SAR Grants Subsequent to the Most Recently Completed Financial Year (2002)

Under its Stock Option Plan (“Option Plan”), the Corporation grants options to buy Common Shares or receive stock appreciation rights attaching to option grants that are valued based on the fair market value of the Common Shares at the close of business on the day before the grant. Stock options have a 7-year term, are exercisable at the market price of the Common Shares on the date prior to the grant, and vest 20% on each of the first, second, third, fourth and fifth anniversaries of the date of the grant.

No stock options of the Corporation were granted during 2002 to the Named Executive Officers. The following table sets forth grants of options made subsequent to 2002 at the market price of \$53.60 per share to employees, including the Named Executive Officers:

Name	Securities Under Options/SARs Granted (#) <sup>(1)</sup>	% of Total Options/SARs Granted to Employees on January 15, 2003	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)	Expiration Date
W. Galen Weston	149,254	6.3%	\$53.60	\$53.60	January 15, 2010
John A. Lederer	149,254	6.3%	\$53.60	\$53.60	January 15, 2010
David K. Bragg	41,978	1.77%	\$53.60	\$53.60	January 15, 2010
David R. Jeffs	52,239	2.21%	\$53.60	\$53.60	January 15, 2010
Donald G. Reid	55,970	2.36%	\$53.60	\$53.60	January 15, 2010

(1) Common Shares of the Corporation

The following table sets forth, where applicable, options on Common Shares exercised during 2002 and unexercised options at December 28, 2002 for each of the Named Executive Officers:

*Option/SAR Exercises During the Most Recently Completed Financial Year and Financial Year-end Option/SAR Values*

Name	Securities/SARs Acquired on Exercise (#)	Aggregate Value Realized \$ <sup>(1)</sup>	Unexercised Options at Financial Year End (#)		Date Option/SAR Granted	Value of Unexercised in the Money Options/SARs at Financial Year End \$	
			Exercisable/Unexercisable			Exercisable/Unexercisable	
W. Galen Weston	75,000	1,611,075	-	112,500	Jan. 11/00	-	2,475,000
			8,248	32,992	Jan. 08/01	45,364	181,456
John A. Lederer	-	-	12,632	-	Jan. 03/97	502,122	-
	-	-	55,832	31,600	Jan. 30/98	1,647,044	932,200
	-	-	8,427	5,618	Jan. 13/99	155,056	103,371
	-	-	75,000	112,500	Jan. 11/00	1,650,000	2,475,000
	-	-	32,990	131,960	Jan. 08/01	181,445	725,780
David K. Bragg	3,930	167,056	-	-	Jan. 03/97	-	-
	2,000	64,516	-	2,000	Jan. 30/98	-	59,000
	-	-	1,404	2,808	Jan. 13/99	25,833	51,667
	13,130	347,918	-	39,390	Jan. 11/00	-	866,580
David R. Jeffs	-	-	26,315	-	Jan. 03/97	1,046,021	-
	-	-	12,000	3,000	Jan. 30/98	354,000	88,500
	-	-	4,212	2,808	Jan. 13/99	77,500	51,667
	-	-	39,380	59,070	Jan. 11/00	866,360	1,299,540
	-	-	20,000	80,000	Oct. 19/01	99,000	396,000
Donald G. Reid	11,228	494,032	-	-	Jan. 03/97	-	-
	4,000	135,000	-	4,000	Jan. 30/98	-	118,000
	1,404	31,800	-	2,808	Jan. 13/99	-	51,667
	25,050	657,562	-	75,150	Jan. 11/00	-	1,653,300

(1) Pretax value accrued since date option granted to date of exercise.

### *Pension Plan and Long Service Executive Arrangements*

The following table illustrates the estimated annual benefit payable at normal retirement age for all senior executives participating in the Corporation's Designated Executive Pension Plan (the "Plan"). The annual benefit does not include bridge benefits for the Canada Pension Plan and Old Age Security. In calculating the annual benefit, the pension formula incorporates the senior executive's average annual base salary and years of service.

#### *Pension Plan Table*

Annual Base Salary \$(000's)	Years of Service				
	15	20	25	30	35
75	22,500	30,000	37,500	45,000	52,500
100	25,833	34,444	43,055	51,666	60,277
125 and above	25,833	34,444	43,055	51,666	60,277

In addition, senior executives of the Corporation are entitled to receive an annual retirement allowance under a Supplementary Employee Retirement Plan ("SERP") up to a maximum of 50% of final salary to a maximum of \$100,000, inclusive of any and all pensions payable from all Corporation sources. Pursuant to the SERP, each of John A. Lederer, David K. Bragg, David R. Jeffs and Donald G. Reid will be entitled to receive an annual retirement allowance at his normal retirement date. The retirement allowance is based on length of service at the rate of 2% per year, to a maximum of 50%, of his best three years' average base salary as defined in the Plan. Messrs. John A. Lederer, and Donald G. Reid are entitled to a maximum aggregate annual retirement allowance at age 60 of \$500,000, and 300,000 respectively, depending on length of service. These payments are inclusive of whatever annual amount is payable from the Plan, the SERP and/or any pension plan of an affiliate. The Plan rules otherwise applicable to the Plan apply to this annual retirement allowance.

The estimated total credited years of service at normal retirement date for each Named Executive Officer is as follows: John A. Lederer (34.2); David K. Bragg (25.6); David R. Jeffs (38.9) and Donald G. Reid (29.8). W. Galen Weston (27.8) participates in the George Weston Limited Designated Executive Pension Plan which has the same attributes as the Plan.

### *Employment and Retirement Arrangements*

Mr. Lederer was appointed President of the Corporation on January 1, 2001 and entered into an employment contract with the Corporation which, among other things, fixed Mr. Lederer's annual base salary at \$1.2 million for 3 years and entitles him to a bonus of up to \$1 million per annum upon achieving certain objectives and an initial grant of options on 164,950 Common Shares, which were granted at market price on January 8, 2001. Upon ceasing to be employed by the Corporation, Mr. Lederer will be entitled to a payment of a maximum of \$10 million, subject to certain non-competition covenants.

Mr. Reid, as President of President's Choice Bank, entered into a contract effective January 1, 2003 with respect to that position. Mr. Reid's base salary was fixed at \$600,000 for the years 2003 and 2004. Upon ceasing to be employed by the Corporation, the contract provides that Mr. Reid will be eligible for a payment of a maximum of 2 times base salary, subject to certain non-competition covenants.

### *Report on Executive Compensation*

The mandate of the Governance and Compensation Committee (the "Committee") is summarized under "Statement of Corporate Governance Practices" on page 11. Among other matters, the Committee is

responsible for reviewing, approving overall compensation policies and reviewing and approving and recommending compensation for senior officers of the Corporation and its operating divisions, including those Named Executive Officers listed in the Summary Compensation Table on page 5.

As of March 5, 2003, the members of the Committee were Anthony S. Fell (Chairman), Anthony R. Graham, G. Joseph Reddington and Joseph H. Wright, all of whom are unrelated within the meaning of the Toronto Stock Exchange corporate governance guidelines as modified by the November 2002 proposed amendments. All members of the Committee are independent except for Mr. Graham who is not independent solely because he is an executive officer of Wittington Investments, Limited.

### *Compensation Philosophy*

The Corporation's compensation arrangements for its senior officers are intended to attract, retain and motivate individuals who can effectively contribute to the long-term success and objectives of the Corporation. Senior officers receive compensation based on their level of individual responsibility and experience, the market value of the job they perform and the success of the Corporation in meeting its objectives and creating shareholder value.

The Corporation seeks to position total compensation for its senior officers, including base salary, annual cash incentives and equity incentives, at the first quartile (75<sup>th</sup> percentile) of that paid by companies in the comparator group described below, for positions with equivalent responsibilities and scope.

### *Comparator Group*

In determining compensation for senior officers, including the Named Executive Officers, the Corporation considers the compensation practices of a comparator group of similarly-sized Canadian and U.S. companies in the food distribution business and retail industry. In determining compensation for the Named Executive Officers, the Committee also considers publicly-disclosed executive compensation information of various Canadian public companies whose revenues, profitability and market capitalization are comparable to those of the Corporation.

On a regular basis, the Committee retains external compensation consultants to analyze total compensation paid by the Corporation and its form to ensure that such compensation is competitive with that paid by companies in the comparator group described above and is effective in achieving the objectives established by the Corporation.

### *Components of Total Compensation*

The aggregate compensation of senior officers of the Corporation, including the Named Executive Officers, consists of four components: base salary, annual cash incentives, equity incentives and retirement plans. The Corporation aims to ensure that each senior officer's compensation is balanced among these four components.

#### *(i) Base Salary*

The Committee reviews base salaries for senior officers, including the Named Executive Officers, on a two or three-year basis. Base salaries are set with reference to the criteria and competitive benchmarks set forth above. The Corporation's compensation philosophy with respect to base salaries is to maintain levels at approximately the market median (50<sup>th</sup> percentile) and to place more upside opportunities on the discretionary incentives. Accordingly, although base salaries are reviewed on a regular multi-year basis, they are relatively de-emphasized and are increased relatively infrequently except in the case of a change of responsibility or promotion.

*(ii) Annual Cash Incentives*

Senior officers participate in a bonus plan based on Economic Value Added (“EVA”) principles. EVA, for purposes of the bonus plan, is a performance measure of the economic value generated by the assets employed by the Corporation. The determination of EVA evaluates the return generated by the operating performance of the Corporation over the cost of capital, for both debt and equity, employed to generate operating earnings. As a result of the bonus plan, a significant portion of each senior officer’s annual compensation is linked to the EVA generated by the business. The EVA bonus plan more closely aligns the bonus aspect of the senior officers’ compensation with long term shareholder objectives of producing sustainable long-term returns well above the cost of capital.

The EVA bonus earned in any year is paid out over a 3-year period, one-third in each subsequent year, commencing with the immediate following year after it is earned. As a result of the payout mechanism, subsequent years’ EVA bonus earned impact on the amount of the EVA received by the senior officers and therefore ensures that long-term performance is not sacrificed by decisions to enhance profitability for the short term.

*(iii) Equity Incentives*

Senior officers participate in the Corporation’s Option Plan. Allocations under the Option Plan are intended to provide strong incentives for superior long-term future performance. The Option Plan links compensation to shareholders’ interests because the value of the awards is directly related to the Corporation’s future stock price.

The Corporation’s Option Plan has two objectives:

- to give each option holder an interest in preserving and maximizing shareholder value over the long term; and
- to enable the Corporation to attract and retain individuals with experience and ability and reward individuals for long-term performance and expected future performance.

Options are granted to senior officers based upon a multiple of base salary reflecting their position, length of service and responsibility. For the fiscal year ending December 28, 2002, the multiple ranged from 10 times salary at the most senior levels to 1 times salary at the division operating level. Options are not granted every year and are reviewed by the Committee as part of its regular review.

Under the Option Plan, individuals can elect to take up Common Shares or the share appreciation value in accordance with the terms of the Option Plan. Options are awarded as part of total compensation without reference to outstanding awards held by a particular officer although total unvested option entitlements are reviewed at the time of option grants to ensure that the Corporation is within its target of no more than 5% of outstanding Common Shares being subject to options at any time. The Committee examines stock options granted by companies in the comparator group described above to ensure that option grants to the Corporation’s senior officers are competitive. To hold stock options, an individual must be an officer or employee of the Corporation, or of a subsidiary or affiliate of the Corporation.

The maximum number of Common Shares issuable under the Option Plan at any time without first obtaining shareholder approval cannot exceed 20,405,991. As indicated above, the Corporation has a target of a maximum of 5% of outstanding Common Shares at any time.

On October 16, 2002, options on 80,000 Common Shares were granted at market price to 4 employees of the Corporation.

On January 15, 2003, options on 2,367,746 Common Shares were granted at market price to 196 employees of the Corporation. Stock option grants of the Corporation as at March 5, 2003 had total unexercised options outstanding of 6,207,351 Common Shares or 2.25% of issued and outstanding Common Shares.

To encourage stock ownership by senior officers of the Corporation and its operating divisions, the Corporation has introduced share ownership guidelines that require a minimum level of ownership of shares of the Corporation and its affiliate set as a percentage of salary to be achieved over a 5-year period. Requirements are generally at the following levels: president – 5 times base salary, executive vice presidents – 3 times base salary and senior vice presidents – 2 times base salary.

*(iv) Retirement Plans*

Senior officers participate in the Corporation's Designated Executive Pension Plan. In addition, senior executives of the Corporation, including the Named Executive Officers, are entitled to a Supplementary Employee Retirement Plan. Information on these plans can be found under "Pension Plan and Long Service Executive Arrangements" on page 7.

*Chairman's and the President's Compensation*

The Chairman's and the President's compensation are considered and determined annually by the Committee and approved by the Board of Directors (the "Board"). Neither the Chairman nor the President participates in the Committee's or the Board's decisions or votes relating to his compensation.

The aggregate compensation of each of the Chairman and the President consists of four components: base salary, annual cash incentives, equity incentives and retirement plans. The Committee aims to ensure that the compensation is balanced among these four components.

Mr. Lederer's base salary was \$1,200,000 in 2002 as per his contract. He received an annual bonus award of \$781,500 for 2002, based on the financial performance of the Corporation, including the achievement of the EVA bonus.

Mr. Weston's salary and bonus were reviewed by the Committee and were adjusted to reflect his continuing involvement and contribution to the management of the Corporation in addition to acting as Chairman.

Mr. Weston's base salary was \$800,000 in 2002. He received a bonus of \$500,000 based on the financial performance of the Corporation.

In establishing the Chairman and the President's salaries, the Committee considers the publicly-disclosed compensation of chief executive officers of companies whose revenues, profitability and market capitalization are comparable to those of the Corporation. In establishing their other compensation entitlements, the Committee considers the EVA bonus provided to senior officers based on the achievement of the Corporation's financial targets established by the Board. In addition, the Committee considers their contribution to the Corporation in terms of leadership in the management of the Corporation and its subsidiaries, increases in shareholder value, the financial performance of subsidiaries, the effective development and growth of the Corporation, completed acquisitions, and the development of new growth opportunities for the Corporation and its subsidiaries.

This report on executive compensation is presented by the Governance and Compensation Committee of the Board of Directors.

Anthony S. Fell (Chairman), Anthony R. Graham, G. Joseph Reddington and Joseph H. Wright.

### *Governance and Compensation Committee Interlock*

During the last year, no executive officer of the Corporation served as (i) a member of the compensation committee (or other committee of the Board performing equivalent functions, or in the absence of any such committee, the entire Board) of another entity, one of whose executive officers served on the Committee of the Corporation; (ii) a director of another entity, one of whose executive officers served on the Committee of the Corporation; or (iii) a member of the compensation committee (or other committee of the Board of Directors performing equivalent functions or in the absence of any such committee, the entire Board of Directors) of another entity, one of whose executive officers served as a director of the Corporation.

### *Compensation of Directors*

In 2002 annual retainers and attendance fees were paid to non-management members of the Board on the following basis: (i) \$30,000 annual retainer, (ii) \$3,000 for each committee member, (iii) \$2,000 for each committee Chairman and (iv) \$500 for each Board and Committee meeting attended. Directors who are also officers of the Corporation receive no remuneration as directors.

Effective January 1, 2003, annual retainers and fees were increased as follows; (i) \$35,000 annual retainer (ii) \$4,000 for each non-audit committee member; (iii) \$3,000 for non-audit committee chairman; (iv) \$10,000 for audit committee chairman; (v) \$5,000 for audit committee member and (vi) \$1,500 for each Board and Committee meeting attended.

In order to align the interests of directors with those of shareholders, directors can elect annually to take all or a portion of their annual retainer(s) and fees in the form of deferred share units. If a director elects to receive deferred share units, units each representing the value of the Common Shares are credited to the director's account each quarter based on the market value of a Common Share. Deferred share units are paid to the director following termination of Board service. Payment will be made in Common Shares, based on the market value of the Common Shares on the date of payment.

The Board of Directors recently approved share ownership guidelines for the directors equal to a target shareholding of \$250,000. Directors are required to take their annual retainers, in deferred share units until they reach this threshold.

### *Statement of Corporate Governance Practices*

The Corporation's Board of Directors and management believe that sound corporate governance practices will contribute to the effective management of the Corporation and its achievement of strategic and operational plans, goals and objectives. The Corporation's approach to corporate governance is in full compliance with the Guidelines for Corporate Governance adopted by the TSX in 1995 (the "TSX Guidelines"). The TSX published proposed amendments to the TSX Guidelines in November 2002 which have not yet been adopted.

The Corporation seeks to attain high standards of corporate governance and believes that it has adopted "best practices" in developing its approach to corporate governance. The Committee continues to monitor the proposed amendments to the TSX Guidelines and other changes to applicable laws to ensure that the Corporation's commitment to exemplary corporate governance practice is maintained. A report with specific reference to each of the TSX Guidelines as modified by the November 2002 proposed amendments is attached as Schedule B.

## *Board of Directors*

### *Independence*

The Committee reviews the factual circumstances and relationships of each director nominee to determine whether he or she is related or unrelated within the meaning of the TSX Guidelines as modified by the November 2002 proposed amendments. The Committee believes there will be within the meaning of the TSX Guidelines, 7 unrelated and independent director nominees.

These 7 directors, after election, will not have any direct relationship with George Weston Limited or W. Galen Weston, the direct and indirect significant shareholders of the Corporation and therefore are considered unrelated and independent.

Accordingly, a majority of the board will be unrelated and independent. The Committee believes this reflects the interests of all shareholders. The following directors are unrelated and independent: John A. Cassaday, Anthony S. Fell, Anne L. Fraser, Thomas C. O'Neill, G. Joseph Reddington, T. Iain Ronald and Joseph H. Wright.

The Corporation is controlled by W. Galen Weston, who owns or controls approximately 61.59% of the total outstanding Common Shares of the Corporation and is a "significant shareholder" within the meaning of the TSX Guidelines. Mr. Weston has a significant common interest with other shareholders with respect to value creation, the well being of the Corporation, and the performance of its publicly listed securities. In addition, Messrs. Dart and Graham are executive officers of Wittington Investments, Limited and Mrs. Daghish is a relative of Mr. Weston and they are therefore not considered independent. Messrs. Michaud and Lederer assist or are associated with or are part of management and are therefore each a related director (See Schedule B).

### *Responsibilities and Duties*

The Board, directly and through its committees, supervises the management of the business and affairs of the Corporation with the goal of enhancing long-term shareholder value. The Board has adopted a formal mandate and makes major policy decisions, delegates to management the authority and responsibility in day-to-day affairs and reviews management's performance and effectiveness. The Board's expectations of management are communicated directly to management and through committees of the Board.

The Board approves the Corporation's operating budgets which take into account the opportunities and risks of the business. Members of the Board attend an annual all-day strategy session with management to discuss and review the Corporation's strategic plans and opportunities. Through the Audit Committee, the Board oversees the Corporation's risk management framework and ensures the integrity of the Corporation's internal control and management information systems. Through the Committee, the Board oversees succession planning and compensation for senior management.

At each Board meeting, the Board meets without management present, to ensure that the Board is able to discharge its responsibilities independently of management. In appropriate circumstances, a director can retain outside advisors with the approval of the Chairman of the Committee.

The Board is also responsible for having in place a process that ensures the effectiveness and accountability of the Board as a whole as well as the committees of the Board. Through the Committee, the Board assesses its performance and the adequacy and form of compensation paid to directors. Each year, the Committee benchmarks directors' compensation against compensation paid by major Canadian public companies in order to ensure that their compensation reflects the responsibilities involved in being a director.

The Board requires that management seek directors' review and approval of:

- strategic corporate direction and corporate performance objectives;
- multi-year and annual business, capital and operating plans and budgets;
- material capital expenditures, acquisitions and divestitures, and restructurings; and
- investment outside of the ordinary course of business.

These matters are in addition to those matters which are required by law to receive Board consideration and approval.

The Board regularly receives reports on the operating results of the Corporation, as well as timely reports on certain non-operational matters, including insurance, pensions, corporate governance, health and safety and treasury matters.

### *Code of Business Conduct*

The Corporation has a Code of Business Conduct applicable to all officers, directors and employees. In accordance with the Code of Business Conduct requirements, the Audit Committee receives regular compliance reports.

### *Committee Structure and Mandates*

There are 5 committees of the Board: Audit, Governance and Compensation, Pension, Environmental, Health and Safety and Executive. With the exception of the Executive Committee, all of these committees are comprised solely of non-management directors. The Board believes that the composition of its committees ensures that they operate independently from management such that shareholders' interests are protected. Each of the committees has a formal charter established by the Board, which is reviewed annually. The committee memberships of the directors are listed in Schedule A.

The following is a brief summary of the committees' responsibilities:

### *Audit Committee*

The Audit Committee, whose members are all financially literate and which includes at least one individual with accounting or related financial experience, is responsible for:

- recommending the appointment of the external auditor;
- reviewing the arrangements for and scope of the audit by the external auditor;
- reviewing the independence of the external auditor;
- considering the adequacy of the systems of internal accounting controls and reviewing any proposed corrective actions;
- reviewing and monitoring the Corporation's policies relating to ethics and conflicts of interests;
- reviewing the integrity of the Corporation's management and information systems;
- establishing a procedure for the receipt, retention and follow up of complaints regarding the Corporation's accounting internal controls and auditing matters;
- reviewing and monitoring the internal audit function of the Corporation;
- reviewing and approving the audit fees paid to the external auditor and pre-approval of non-audit related fees to the external auditor;
- discussing and reviewing with management and the external auditor the Corporation's annual and interim consolidated financial statements, key reporting matters and Management's Discussion and Analysis; and
- approving the Corporation's annual and interim consolidated financial statements and Management's Discussion and Analysis.

### *Governance and Compensation Committee*

The Governance and Compensation Committee is responsible for:

- identifying candidates for membership on the Board;
- assisting in educating directors and assessing their performance on an on-going basis;
- shaping the Corporation's approach to corporate governance and recommending to the Board corporate governance principles to be followed by the Corporation; and
- discharging the Board's responsibilities relating to compensation and succession planning of the Corporation's senior executives.

### *The Pension Committee*

The Pension Committee is responsible for:

- reviewing the performance of the Corporation's and its subsidiaries' pension funds;
- reviewing and recommending managers for the fund's portfolio;
- reviewing performance of pooled pension fund managers; and
- reviewing and approving the assumptions used, the funded status and amendments to the Corporation's and its subsidiaries' pension plans.

### *Environmental, Health and Safety Committee*

The Environmental, Health and Safety Committee is responsible for reviewing and monitoring environmental, health and safety policies, procedures, practices and compliance.

### *Executive Committee*

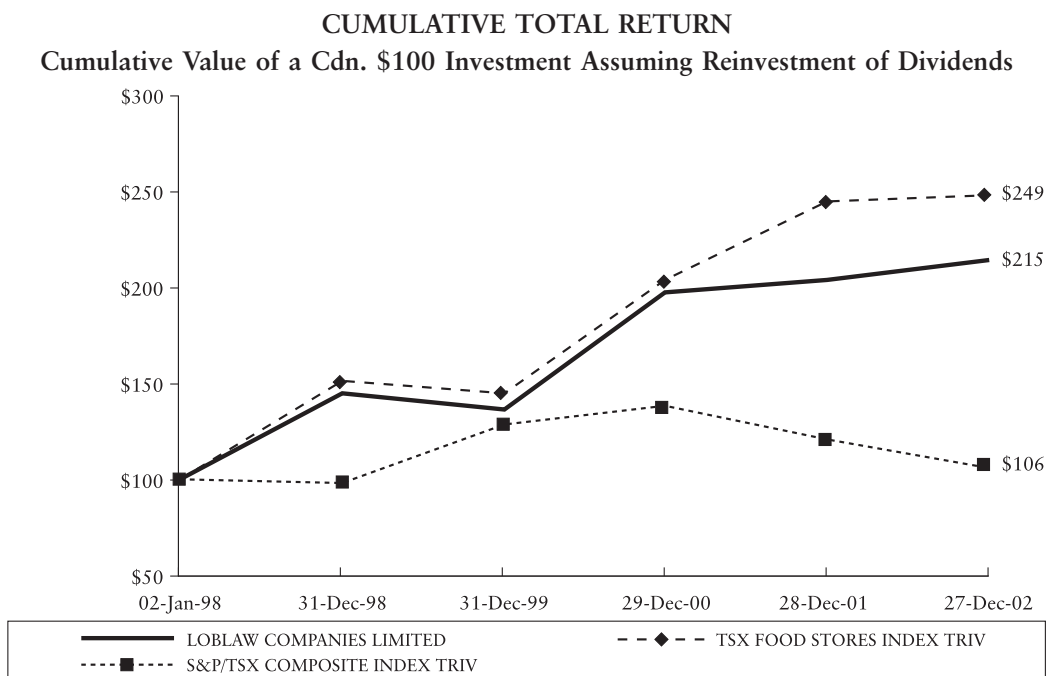
The Executive Committee possesses all of the powers of the Board except the power to declare common dividends and certain other powers specifically reserved by applicable law to the Board. The Executive Committee acts only when it is not practicable for the full Board to meet.

### *Disclosure Policy*

The Committee has reviewed and adopted a disclosure policy, which provides for interaction with analysts, shareholders and the public to ensure compliance with regulatory requirements and disclosure of information on a timely basis to all shareholders.

## Performance Graph

The graph below compares the cumulative total shareholder return on \$100 invested in Common Shares on December 31, 1997 with the cumulative total return of the S&P/TSX Composite and the Food Stores Index over the same period.



	02-Jan-98	31-Dec-98	31-Dec-99	29-Dec-00	28-Dec-01	27-Dec-02
S&P / TSX COMPOSITE INDEX TRIV	\$100	\$98	\$129	\$139	\$121	\$106
TSX FOOD STORES INDEX TRIV	\$100	\$152	\$145	\$205	\$246	\$249
LOBLAW COMPANIES LIMITED	\$100	\$145	\$137	\$198	\$205	\$215

	02-Jan-98	31-Dec-98	31-Dec-99	29-Dec-00	28-Dec-01	27-Dec-02
S&P / TSX COMPOSITE INDEX TRIV	13,896.11	13,648.84	17,977.46	19,309.36	16,852.24	14,739.86
TSX FOOD STORES INDEX TRIV	32,366.35	49,226.71	46,862.31	66,386.84	79,738.11	80,685.48

### *Director and Officer Liability Insurance*

The Corporation maintains insurance for the benefit of its directors and officers and the directors and officers of its subsidiaries, as a group, in respect of the performance by them of their duties of their offices. The Corporation believes that coverage limits and deductibles are in line with those maintained by other corporations similar to the Corporation. The annual insurance premium of \$205,937 is paid by the Corporation. The insurance limit is \$300 million per annum on an aggregate basis or per occurrence basis. There is no deductible in the case of directors and officers and a \$250,000 deductible for the Corporation.

### *General*

Information contained herein, save and except where indicated, is given as of March 5, 2003. The contents and sending of this Management Proxy Circular have been approved by the Board.

Additional copies of our latest annual information form (together with the documents or pertinent pages of documents incorporated by reference), our consolidated financial statements for 2002 together with the report of the auditor on those statements, any financial statements for periods after 2002 and this Circular can be obtained upon request from the Vice President, Industry and Investor Relations of the Corporation at 22 St. Clair Avenue East, Suite 1800, Toronto, Ontario M4T 2S8. Additional information about the Corporation can also be found at [www.loblaw.com](http://www.loblaw.com).



Stewart E. Green  
Senior Vice President and Secretary

## Schedule A — Directors' Biographies



**JOHN M. CASSADAY, M.B.A.**

Mr. Cassaday is President and Chief Executive Officer and a Director of Corus Entertainment Inc. and was formerly President and Chief Executive Officer of CTV Television Network. Mr. Cassaday is a Director of Manulife Financial Corporation and of Masonite International Corporation.

Member of the Audit and Environmental, Health and Safety Committees



**CAMILLA H. DALGLISH, B.A.**

Mrs. Dalglish is a Director of The W. Garfield Weston Foundation and of The Nature Conservancy of Canada. Mrs. Dalglish is a past President of The Civic Garden Centre and a former Member of the Board of Directors of the Royal Botanical Gardens.

Member of the Environmental, Health and Safety Committee



**ROBERT J. DART, B.Comm., F.C.A.**

Mr. Dart is Vice Chairman of Wittington Investments, Limited and was formerly President of Wittington Investments, Limited. Mr. Dart was a former senior tax partner of Price Waterhouse Canada. He is a Director of George Weston Limited, Holt Renfrew & Co., Limited, Brown Thomas Group Limited and Canadian Arthritis Network.



**ANTHONY S. FELL**

Mr. Fell is Chairman of RBC Capital Markets Inc. and was previously Chairman and Chief Executive Officer of RBC Dominion Securities and Deputy Chairman of Royal Bank of Canada. Mr. Fell is a Director of BCE Inc. Munich Reinsurance Group of Companies and CAE Inc. and is Chairman of the Board of Trustees of University Health Network.

Chairman of the Governance and Compensation Committee and Member of the Audit Committee



**ANNE L. FRASER, B.Sc., LL.D.**

Mrs. Fraser is an Education Consultant with the University of Victoria, an Associate Governor of Dalhousie University and an Associate, Faculties of Management, Education, Engineering and Fine Arts at the University of Calgary. She is a Director of George Weston Limited, Neuroscience Canada Foundation, Bamfield Marine Research Centre and Pier 21 Society.

Member of the Environmental, Health and Safety Committee



**ANTHONY R. GRAHAM**

Mr. Graham is President and a Director of Wittington Investments, Limited and President and Chief Executive Officer of Sumarria Inc. an Investment management company. Mr. Graham was formerly Vice-Chairman and Director of National Bank Financial and Senior Executive Vice President and Managing Director of Lévesque Beaubien Geoffrion Inc. Mr. Graham is Chairman and a Director of President’s Choice Bank and is a Director of George Weston Limited, Holt Renfrew & Co., Limited, Power Corporation, Power Financial Corporation, Provigo Inc. and Graymont Ltd.

Member of the Executive; Governance and Compensation and Pension Committees



**JOHN A. LEDERER, B.A.**

Mr. Lederer is President of the Corporation and was formerly Executive Vice President of the Corporation. He is a director of Food Marketing Institute, a member of the Coca Cola Research Council and founder of the President’s Choice Children’s Charity.

Member of the Executive Committee



**PIERRE MICHAUD, C.M.**

Mr. Michaud is Chairman and Director of Provigo Inc. Co-Chairman of Reno-Depot Inc. and Vice-Chairman of the Board of Directors of Laurentian Bank of Canada. Mr. Michaud is a Director of Capital d’Amerique, Old Port of Montreal Corporation Inc. and member of Mont-Tremblant Advisory Board.

Chairman of the Environmental, Health and Safety Committee



**THOMAS C. O’NEILL, F.C.A.**

Mr. O’Neill recently retired as Chairman of PricewaterhouseCoopers Consulting. Prior to that he held the position of Chief Executive Officer, and previously, he had been Chief Operating Officer of the PricewaterhouseCoopers LLP global organization. He is a past member of the Advisory Council of the Queen’s University School of Business and currently Vice-Chair of the Board of Governors of Queen’s University. Mr. O’Neill is currently a director of Nexen, BCE and OTPP.



**G. JOSEPH REDDINGTON, B.A., J.D.**

Mr. Reddington is Chairman, Chief Executive Officer and a Director of Breuners Home Furnishings Corporation. Mr. Reddington is the former Chairman and Chief Executive Officer of The Signature Group and a former President and Chief Executive Officer of Sears Canada.

Member of the Governance and Compensation Committee



**T. IAIN RONALD, F.C.A., M.B.A., B.L.**

Mr. Ronald is Chairman of Transalta Power Ltd. and Transalta Cogeneration Ltd. and was formerly Vice Chairman of Canadian Imperial Bank of Commerce. He is a Director of Canada Life Financial Corporation, The Canada Life Assurance Company, North West Company Inc., Holt Renfrew & Co., Limited, President's Choice Bank, Leon's Furniture Limited, BFI Canada Inc. and Strongco Inc.

Chairman of the Audit and Pension Committees



**W. GALEN WESTON, O.C., B.A., LL.D.**

Mr. Weston has been Chairman of Loblaw Companies Limited since 1976 and is Chairman and President of George Weston Limited. Mr. Weston is also Chairman of Holt Renfrew & Co., Limited and Brown Thomas Group Limited. Mr. Weston is President of The W. Garfield Weston Foundation and a Director of Associated British Foods plc, Canadian Imperial Bank of Commerce and is a member of the Advisory Board of Columbia University.

Chairman of the Executive Committee



**JOSEPH H. WRIGHT, B.A.**

Mr. Wright is a Managing Partner of Barnagain Capital and was formerly President and Chief Executive Officer of Swiss Bank Corporation (Canada). Mr. Wright is Chairman and Trustee of O & Y Reit, Chairman of Hip Interactive, and a Director of President's Choice Bank, CallNet Enterprises Inc., The Centre for Addiction and Mental Health Foundation and is a Member of the Board of Governors of CM Investment Management.

Member of the Audit, Governance and Compensation and Pension Committees

## Schedule B — Corporate Governance Practices — (TSX Guidelines)

### Summary of TSX proposed guidelines for improved corporate governance

### Corporation's Governance Practices

1. The board should explicitly assume responsibility for stewardship of the Corporation and specifically for:

(i) adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business;

(ii) identification of the principal risks of the Corporation's business and ensuring implementation of appropriate systems to manage those risks;

(iii) succession planning, including appointing, training and monitoring senior management;

(iv) communication policy; and

The Board supervises the management of the Corporation's business and affairs with the goal of enhancing long-term shareholder value. It makes major policy decisions, delegates to management the authority and responsibility for day-to-day affairs and reviews management's performance and effectiveness.

The Board approves the Corporation's operating budgets which takes into account the opportunities and risks of the business. A day-long meeting is held every year with senior management and the Board to discuss and review strategic planning and opportunities for the Corporation.

The Board, through, its Audit Committee, reviews the principal risks of the Corporation's businesses and ensures that those risks are effectively managed. The Audit Committee reviews risk management policies and processes. The Audit Committee reviews reports from the internal audit group and reviews internal controls and risk management policies and processes.

The Governance and Compensation Committee reviews succession planning for senior management, reports from senior management on staffing, organizational structure and succession planning matters.

The Governance and Compensation Committee has approved a Corporate Disclosure Policy. The Board reviews and approves the contents of major disclosure documents, including the Annual Report, the Annual Information Form, Management's Discussion and Analysis and this Management Proxy Circular.

- procedures are in place to provide timely information to investors and potential investors and to respond to investor inquiries and concerns;
- an investor relations group has the responsibility of maintaining communications with the investing public in accordance with policies and procedures and legal disclosure requirements;
- the Chairman and the President, the Executive Vice President and other senior executives meet periodically with financial analysts and institutional investors;
- investor relations' staff are available to shareholders by telephone and fax and the investor relations Web site at [www.loblaw.com](http://www.loblaw.com);

(v) integrity of internal control and management information systems.

2. A majority of directors should be “unrelated” (independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director’s ability to act with a view to the best interests of the Corporation).

The Board has responsibility for applying the definition of “unrelated” directors to each director.

3. The board should appoint a committee of directors composed exclusively of outside directors, a majority of whom are unrelated directors, with responsibility for proposing new nominees to the board and for assessing directors on an ongoing basis.

4. The board should implement a process, to be carried out by an appropriate committee, for assessing the effectiveness of the board, its committees and the contribution of individual directors.

5. The board should establish an orientation and education program for new directors.

- quarterly earnings conference calls are broadcast live over the Internet and are accessible on a live and recorded basis via telephone.

The Audit Committee requires management to implement and maintain appropriate systems of internal control and assess the adequacy and effectiveness of those systems. Regular reports are provided to the Audit Committee.

Currently, as determined pursuant to the TSX Guidelines, 7 of the persons proposed for election to the Board of Directors are unrelated and independent:

- the Chairman and the President are each “related” directors;
- Mr. Michaud receives a retainer from Provigo Inc. and is considered related;
- Mrs. Daghish is a relative of Mr. Weston and Messrs. Dart and Graham are executives of Wittington Investments, Limited and are therefore not considered independent.

The Governance and Compensation Committee, composed entirely of non-management directors, identifies, evaluates and recommends nominees for the Board. The Governance and Compensation Committee determines what competencies, skills and personal qualities it should seek in new Board members and periodically retains outside consultants to conduct searches for appropriate nominees. The mandate of the Governance and Compensation Committee is summarized under the heading “Statement of Corporate Governance Practices” in this Circular.

Every year, the Governance and Compensation Committee reviews the experience and performance of nominees proposed for election to the Board. In addition, a meeting of outside/unrelated directors chaired by the Lead Director is held annually to discuss and review governance matters and any other issues which directors wish to discuss.

The Corporation prepares a binder of all relevant material and policies for new directors. The Board ensures that prospective candidates fully understand the role of the Board and its committees and the contribution that individual directors are expected to make, including, the commitment of time required.

6. The board should examine its size and undertake, where appropriate, a program to establish a board size which facilitates effective decision-making.

7. The Board of Directors should review the adequacy and form of compensation of directors in light of the risks and responsibilities involved in being a director.

8. Committees of the board should generally be composed of non-management directors, a majority of whom are unrelated.

9. The board should assume responsibility for, or assign to a committee of directors responsibility for, developing the Corporation's approach to corporate governance issues.

10. The Board of Directors, together with the CEO, should develop position descriptions for the board and for the CEO, including the definition of the limits to management's responsibilities.

11. The Board should implement structures and procedures so that it can function independently of management

12. The Audit Committee should be composed entirely of unrelated directors.

All of the members of the Audit Committee should be financially literate and at least one member should have accounting or related financial expertise.

The board shall determine the definition of and criteria for "financial literacy" and "accounting or related financial expertise."

The board should adopt a charter for the Audit Committee which sets out roles and responsibilities of the Audit Committee which should be specifically defined so as to provide appropriate guidance to Audit Committee members as to their duties.

The Board has carefully examined issues related to its size.

The Governance and Compensation Committee reviews the amount and the form of compensation of directors. In making recommendations, the Governance and Compensation Committee considers the time commitment, responsibilities of directors, as well as comparative data prepared and analyzed by an outside consultant.

Each committee of the Board other than the Executive Committee is composed solely of non-management directors, a majority of whom are unrelated and independent.

The Governance and Compensation Committee advises and assists the Board in applying governance principles and practices, and tracks developments in corporate governance, adopting best practices where applicable. It also recommends suitable candidates for election to the Board.

Position descriptions have been developed for the Board, its committees, the Chairman and the President. Delegations of authority have been put in place by the Board, to define the limits of management's authority and responsibilities.

The Corporation is a controlled corporation and has established committees composed entirely of non-management directors with specific mandates. In addition, the Board has appointed a Lead Director to act in situations where required or appropriate.

The Audit Committee is composed entirely of unrelated and independent directors.

All members of the Audit Committee are financially literate and at least one member has accounting or related financial expertise.

In considering criteria for determinations of financial literacy, the board looks at the ability to read and understand a balance sheet, an income statement and a cash flow statement of a financial institution.

The charter of the Audit Committee has been approved by the Board and is reviewed annually. It is summarized under the heading "Statement of Corporate Governance Practices" in the Circular.

The Audit Committee is directly responsible for the oversight of the work of the external auditor.

The Audit Committee charter also specifies that the external auditor is accountable to the board and the Audit Committee as representatives of the shareholders.

The Audit Committee should have direct communication channels with the internal and the external auditor to discuss and review specific issues as appropriate.

The Audit Committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the Audit Committee to ensure that management has done so.

13. The board should implement a system to enable an individual director to engage an outside advisor, at the Corporation's expense, in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the board.

The board should approve or develop the corporate objectives which the CEO is responsible for meeting and assess the CEO against these objectives.

The Audit Committee has the sole authority to approve all audit engagement fees and terms as well as the provision of any legally permissible non-audit services provided by the external auditor.

The Audit Committee is responsible for reviewing the independence and objectivity of the external auditor, including reviewing relationships between the external auditor and the Corporation which may impact on their independence and objectivity.

The Audit Committee also is responsible for reviewing with the external auditor any audit problems or difficulties and management's response.

The Committee reviews:

- the annual statement, quarterly financial statements, Annual Information Form and Management's Discussion and Analysis;
- prospectuses and press releases relating to the issuance of securities by the Corporation; and
- any significant issues reported to management by the Internal Auditor and management's responses to any such reports.

The Audit Committee mandate provides that the Audit Committee will, at least quarterly, meet separately with the external auditor, the Internal Auditors and senior management, to discuss and review specific issues as appropriate.

The Audit Committee, which has oversight responsibility for management reporting on internal controls, requires that management implement and maintain appropriate internal control procedures. The Audit Committee meets with the Internal Auditors and with management to assess the adequacy and effectiveness of these systems of internal control.

Individual directors may, with the approval of the Chairman of the Governance and Compensation Committee, engage outside advisors at the expense of the Corporation.

The Board's mandate provides that the Board acts in a supervisory role and that any responsibilities not delegated to management remain with the Board. The scope of the Board's supervisory role expressly includes such matters as the strategic planning process, identification and management of risks, succession planning, communications policy, internal controls and governance.

The Board annually approves an operating plan and budget and reviews the performance of the Chairman and the President against the achievement of these plans and achievement of stated financial targets.

14. The board should implement structures and procedures to ensure that it can function independently of management.

The chair or lead director should ensure that the board carries out its responsibilities effectively which will involve the board meeting on a regular basis without management present and may involve assigning responsibility for administering the board's relationship to management to a committee of the board.

The Board is composed of a majority of non-management directors and unrelated directors. In addition, when necessary, the Chairman of the Governance and Compensation Committee may serve as a Lead Director.

The Board meets independently from management at every Board meeting.

## Schedule C — Shareholder Proposal

The following Shareholder Proposal has been submitted for consideration at the Annual Meeting by the Carpenters' Local 27 Benefit Trust Funds, 230 Norseman Street, Etobicoke, Ontario M8Z 6A2. The proposal and statement of support are set out in italics.

*Option Expensing Proposal: Resolved, that the shareholders of Loblaw Companies Ltd. hereby request that the Company's Board of Directors establish a policy of expensing in the Company's annual income statement the costs of all future stock options issued to senior Company executives.*

*Statement of Support: Current accounting rules give companies the choice of reporting stock option expenses annually in the company income statement or as a footnote in annual report. Most companies, including ours, report the cost of stock options as a footnote in the annual report, rather than include the option costs in determining operating income. We believe that expensing stock options would more accurately reflect a company's operational earnings.*

*Stock options are an important component of our Company's executive compensation program. Options have replaced salary and bonuses as the most significant element of executive pay packages at numerous companies. The lack of option expensing can promote excessive use of options in a company's compensation plans, obscure and understate the cost of executive compensation and promote the pursuit of corporate strategies designed to promote short-term stock price rather than long-term corporate value.*

*A recent report issued by Standard & Poor's indicated that the expensing of stock option grant costs would have lowered operational earnings at companies by as much as 10%. "The failure to expense stock option grants has introduced a significant distortion in reported earnings," stated U.S. Federal Reserve Board Chairman Alan Greenspan. "Reporting stock options as expenses is a sensible and positive step toward a clearer and more precise accounting of a company's worth," he concluded. (See Globe and Mail, "Expensing Options is a Bandwagon Worth Joining," Aug. 16, 2002.)*

*Warren Buffett wrote in a New York Times Op-Ed piece on July 24, 2002:*

*There is a crisis of confidence today about corporate earnings reports and the credibility of chief executives. And it's justified.*

*For many years, I've had little confidence in the earnings numbers reported by most corporations. I'm not talking about Enron and WorldCom — examples of outright crookedness. Rather, I am referring to the legal, but improper, accounting methods used by chief executives to inflate reported earnings...*

*Options are a huge cost for many corporations and a huge benefit to executives. No wonder, then, that they have fought ferociously to avoid making a charge against their earnings. Without blushing, almost all C.E.O.'s have told their shareholders that options are cost-free...*

*When a company gives something of value to its employees in return for their services, it is clearly a compensation expense. And if expenses don't belong in the earnings statement, where in the world do they belong?*

*Many companies have responded to investors' concerns about their failure to expense stock options. In recent months, over 100 U.S. and Canadian companies, including Bank of Montreal, Toronto Dominion Bank, Coca-Cola Corporation, and General Electric, have decided to expense stock options in order to provide their shareholders more accurate financial statements.*

*Our company has yet to act. We urge your support.*

### **THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THIS PROPOSAL FOR THE FOLLOWING REASONS:**

The Corporation's Audit Committee has established a policy of expensing, in its consolidated statement of earnings, the costs of all future stock options issued to senior executives. In addition the Corporation currently accounts for options in accordance with Canadian generally accepted accounting principles and discloses such in the notes to the Annual Consolidated Financial Statements.