



**2005**

**ANNUAL INFORMATION FORM**

**March 22, 2006**

**GEORGE WESTON LIMITED  
2005 ANNUAL INFORMATION FORM  
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## **I. FORWARD LOOKING STATEMENTS**

This Annual Information Form contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions.

These forward-looking statements are not guarantees, but only predictions. Although the Company believes that these statements are based on information and assumptions which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from the estimates, projections and intentions. Such differences may be caused by factors which include, but are not limited to, changes in consumer spending, preferences and consumers' nutritional and health related concerns, changes in the competitive environment, including changes in pricing and market strategies of the Company's competitors and the entry of new competitors and expansion of current competitors, the availability and cost of raw materials and ingredients, fuels and utilities, the ability to realize anticipated cost savings, including those resulting from restructuring and other cost reduction initiatives, the ability to execute restructuring plans effectively, the Company's relationship with its employees, results of labour negotiations including the terms of future collective bargaining agreements, changes to the regulatory environment in which the Company operates now or in the future, changes in the Company's tax liabilities, either through changes in tax laws or future assessments, performance of third-party service providers, public health events, the ability of the Company to attract and retain key executives, the success rate of the Company in developing and introducing new products and entering new markets and supply and quality control issues with vendors. The Company cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including in the Operating and Financial Risks and Risk Management sections of the Company's Management Discussion and Analysis in its 2005 Annual Report.

The assumptions applied in making the forward looking statements contained in this Annual Information Form include the following: economic conditions in 2006 do not materially change from those expected, patterns of consumer spending and preferences are reasonably consistent with historical trends, no new significant competitors enter the Company's markets nor does any existing competitor significantly increase its presence or change pricing or market strategies, anticipated cost savings from restructuring activities are realized as planned, continuing future restructuring activities are effectively executed, there are no material work stoppages in 2006 and the performance of third-party service providers is in accordance with expectations in the upcoming year.

Potential investors and other readers are urged to consider these factors carefully in evaluating these forward-looking statements and are cautioned not to place undue reliance on them. The forward-looking statements included in this Annual Information Form are made only as of the date of this Annual Information Form and the Company does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events contained in these forward-looking statements may or may not occur. The Company cannot assure that projected results or events will be achieved.

The information in this Annual Information Form is current to December 31, 2005, unless otherwise noted. All amounts are in Canadian dollars.

## II. CORPORATE STRUCTURE

### Incorporation

George Weston Limited (“Weston”) was incorporated by letters patent under the laws of Canada on January 27, 1928. It was continued under the *Canada Business Corporations Act* on April 29, 1980, and amalgamated with Weston Food Processing Ltd. pursuant to Articles of Amalgamation effective January 1, 1989. The registered head office is located at 22 St. Clair Avenue East, Toronto, Ontario, Canada M4T 2S7.

### Intercorporate Relationships

George Weston Limited (“Weston”) is a holding company and operates through its subsidiaries in its Weston Foods and Loblaw operating segments. Weston Foods is operated primarily in Canada by Weston Foods Inc. and its subsidiaries and in the United States by Weston Foods, Inc., and its respective subsidiaries. Weston, directly and indirectly, also holds a 61.9% interest in Loblaw Companies Limited (“Loblaw Companies”), a public company which operates the Loblaw segment across Canada through Loblaw Companies’ directly and indirectly owned subsidiaries (Loblaw Companies and its subsidiaries are collectively referred to as “Loblaw”). Throughout this Annual Information Form, George Weston Limited and all of its subsidiaries are collectively referred to as the “Company”.

A list of subsidiaries of Weston that carry on its principal businesses is set out below. In each case, 100% of the voting securities are owned either directly or indirectly by Weston, except in the case of Loblaw Companies, in which 61.9% of the voting shares are held directly and indirectly by Weston.

### Weston Foods

### Jurisdiction of Incorporation

Arnold Foods Company, Inc	Delaware
Arnold Products, Inc.	Delaware
Boulangerie Gadoua Ltée.	Quebec
Boulangeries Weston Quebec Limitée	Ontario
Charles Freihofer Baking Company, Inc.	New York
Dicoa Holdings Limited	Gibraltar
Dicoa Investments Limited	Gibraltar
Dunedin Holdings SARL	Luxembourg
Entenmann’s, Inc.	Delaware
Entenmann’s Products, Inc.	Delaware
Entenmann’s Sales Company, Inc.	Delaware
Freihofer Products, Inc.	Delaware
Freihofer Sales Company, Inc.	Delaware
George Weston Bakeries Distribution Inc.	Delaware
George Weston Bakeries Inc.	Delaware
Groupe Tradition’l Inc.	Quebec
Interbake Foods LLC	Delaware
Maplehurst Bakeries, Inc.	Indiana

## Weston Foods

## Jurisdiction of Incorporation

Ready Bake Foods Inc.	Ontario
Stroehmann Bakeries, L.C.	Virginia
Weston Acquisition, Inc.	Delaware
Weston Bakeries Limited	Canada
Weston Foods, Inc.	Delaware
Weston Foods Inc.	Ontario
Weston Food Distribution Inc.	Canada
William Neilson Ltd.	Ontario

## Loblaw

Atlantic Wholesalers Ltd.	New Brunswick
Fortinos Supermarket Ltd.	Ontario
Glenhuron Bank Limited	Barbados
Kelly, Douglas & Company, Limited	British Columbia
Loblaw Brands Limited	Canada
Loblaw Companies Limited	Canada
Loblaw Financial Holdings Inc.	Ontario
Loblaw Properties Limited	Ontario
Loblaw Properties West Inc.	Canada
Loblaws Inc.	Ontario
Loblaws Supermarkets Limited	Ontario
National Grocers Co. Ltd.	Ontario
President's Choice Bank	Canada
Provigo Distribution Inc.	Quebec
Provigo Inc.	Quebec
Provigo Properties Limited	Canada
Westfair Foods Ltd.	Canada
Zehrmart Inc.	Ontario

### **III. GENERAL DEVELOPMENT OF THE BUSINESS**

#### Overview

Weston is a Canadian public company, founded in 1882, and is one of North America's largest food processing and distribution companies. The Company has two reportable operating segments: Weston Foods and Loblaw. The Weston Foods operating segment is primarily engaged in the baking and dairy industries within North America. The Loblaw operating segment, which is operated by Loblaw Companies Limited and its subsidiaries, is Canada's largest food distributor and a leading provider of general merchandise, drugstore and financial products and services. In prior years, the Company reported the Loblaw segment as the Food Distribution segment.

The North American food processing and retail industries are evolving and operate in increasingly competitive markets. Consumers' needs drive changes in the industry, which is impacted by changing demographic and economic trends such as changes in disposable income, increasing ethnic diversity, nutritional awareness and time availability. Over the last several years, consumers have demanded more

quality, value and convenience. The Company's segments will enter new markets and will review potential acquisitions when the opportunities arise and also exit a particular market and reallocate assets elsewhere when there is a strategic advantage in doing so.

### Weston Foods

Weston Foods is focused predominantly on the North American baking industry (primarily fresh and frozen bakery products, biscuits, ice cream cones and sandwich wafers), with 2 production facilities in the dairy industry in Ontario, Canada. Significant restructuring of the baking assets has been carried out in the past three years. Restructuring and rationalization activity has been taking place across the industry and particularly among the Company's competitors in the United States.

The Weston Foods bakery operations have operated in a challenging market place impacted by consumers' evolving nutritional and health concerns. Weston Foods has been proactive in dealing with these concerns and is taking steps to ensure it is meeting customer's needs, such as developing and marketing a range of healthy lifestyle products such as whole grain offerings and *Dairy Oh!* milk enriched with DHA and continuing to expand the number of zero-trans fat baked products. The vast majority of Weston Foods' baked products made with non-hydrogenated ingredients meet the stringent trans fat free designation in Canada which is communicated to the consumer on all branded packaging.

Capital investments have been targeted toward improving the efficiency of existing assets and increasing capacity where growth opportunities exist. Over the last three years, small to medium sized acquisitions have taken place in targeted areas.

During 2005, Weston Foods purchased a commercial baking facility in Orlando, Florida for US\$6.5 million and subsequently significantly expanded the facility. Also in 2005, Weston Foods commenced the construction of a new facility in Front Royal, Virginia. In 2004, Weston Foods acquired Boulangerie Gadoua Ltée., a Quebec -based commercial bakery with three baking facilities in Quebec for \$59 million. A newly constructed plant in Langley (British Columbia) began production in 2004. During 2003, Weston Foods began production in a facility located in Gatineau, Quebec and acquired a Quebec based specialty bakery with two facilities for \$6 million.

Weston Foods made further progress on its objective of simplifying and removing cost from its existing manufacturing processes and approved plans to exit certain bread and roll manufacturing lines in the United States. All production associated with these lines was transferred to third-party producers or other Weston Foods manufacturing facilities by the end of 2005.

In 2005, Weston Foods approved plans to restructure its United States biscuit operations, which will result in the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia by the end of 2006 with the majority of the production relocated to a new facility in Virginia and an existing Weston Foods facility in South Dakota. In 2005, Weston Foods approved plans to start construction of a new bakery in the Midwestern United States. This new facility will produce fresh bakery products, including bread and English muffins, and is expected to be in commercial production by the end of 2006. In 2005, Weston Foods also approved plans to consolidate, relocate and restructure certain of its administrative offices within North America which are anticipated to be completed by the end of 2006.

During 2005, Weston Foods completed the sale of its discontinued fisheries operations. During 2004, six plants were closed: Buffalo (New York), Northlake (Illinois), St. Louis (Missouri), Laval (Quebec), Ottawa (Ontario) and Toronto (Ontario). During 2003, three plants were closed: Barrie (Ontario), London (Ontario) and Orillia (Ontario).

Further information on trends affecting Weston Foods and Weston Foods' strategies can be found in the Management's Discussion and Analysis section of the Company's 2005 Annual Report ("MD&A"). This information is incorporated by reference and is available at [www.sedar.com](http://www.sedar.com) or [www.weston.ca](http://www.weston.ca).

### Loblaw

During 2005, Loblaw continued with the execution of several transformative changes to its business including the restructuring of its supply chain network, reorganizations of its merchandising, procurement and operations groups, the establishment of a new national head office and Store Support Centre in Brampton, Ontario, which opened in the third quarter of 2005, and the relocation of general merchandise operations from Calgary, Alberta to the new head office and Store Support Centre. Some of these changes began in 2004 and were necessary to position Loblaw for long term growth. Although Loblaw has experienced challenges in its restructuring of the supply chain network, it is expected that these matters will be resolved in 2006.

During the last three years, total sales increased at a cumulative average annual rate of approximately 6.40%. The square footage of corporate and franchised stores increased at cumulative average annual growth rates of approximately 4.69% and 5.02%, respectively, over the same period. The number of corporate stores over the period increased from 632 to 670, with a trend towards expanded store size offering an increased variety of products and services. The number of franchised stores declined from 406 to 402 over the period.

In the past three years, Loblaw continued to expand and improve its asset base and to reinvest in existing assets in order to position Loblaw for sustainable future growth. During this period, cumulative capital investment, funded through cash flows from operating and financing activities, was \$3.69 billion in the aggregate, comprised of \$1.16 billion, \$1.26 billion and \$1.27 billion in fiscal years 2005, 2004, and 2003, respectively.

Loblaw provides food and everyday household wants and needs to Canadians. Traditional food offerings remain at the core of the Loblaw business. In 2005, a number of steps were taken to strengthen Loblaw's food offering; including a renewed commitment to the fresh food component, new products and programs in the produce, meat, bakery, seafood and deli departments and collaborative initiatives were implemented with suppliers. Loblaw also continued to add to its array of offerings to meet customers' everyday household needs, creating a one-stop shopping experience. The extent of these offerings vary across formats and include a drugstore, photo/electronics, apparel, housewares, home accessories, flower markets, optical services and lawn and garden centres. Loblaw offers a strong control label program for both its food and everyday household needs which assists in creating customer loyalty and price competitiveness. Over the past three years, Loblaw continued to add products to its control label program which provides over 7,000 products in the food and everyday household needs categories, including the development of a line of control label household products that cater to all areas of the home – bed, bath, kitchen, home decor and outdoor living. Loblaw also provides gas bars adjacent to a number of its stores and has increased its gas bar presence in eastern Canada in the past three years.

The continued focus by the consumer on health and diet has resulted in the introduction of health-oriented control label products. Loblaw has been a leader in offering certified organic products and now has approximately 300 of those products under the *President's Choice Organics* label. In 2004, Loblaw launched the *PC Mini Chefs* line of healthy-choice products for children. Early in 2005 Loblaw introduced its *PC Blue Menu* line of products for health and nutrition conscious consumers and now offers over 200 such products.

Loblaw pursues a strategy of enhancing profitability on a market-by-market basis by using a multi-format approach. Loblaw offers four distinct store formats: superstores, hard discount stores, conventional stores and warehouse clubs. This multi-format approach enables Loblaw to serve a greater variety of consumers, compete on price and place the optimal offerings in the right markets. In order to meet more of its customers' everyday household needs, Loblaw is constructing larger stores and retrofitting existing locations, where appropriate for the local market, allowing Loblaw to offer a wider variety of products and services. In 2005, new banner logos were developed, store exteriors were remodeled, store architecture and décor were updated and new in-store signage was introduced.

During 2003, Loblaw introduced *The Real Canadian Superstore* format to the Ontario market, having successfully operated this format in western Canada for many years. The establishment of this large store program is expected to continue in 2006 and beyond as it enables Loblaw to deliver a unique shopping experience to its customers in Ontario that includes an expanded selection of products and services at competitive prices. As part of a long term labour strategy to establish a competitive framework for *The Real Canadian Superstore* concept in Ontario, in 2003 an initial agreement was reached with certain labour unions that resulted in a certain number of employees accepting early retirement. Further development of *The Real Canadian Superstore* sites may be dependent on the successful negotiation of further agreements.

The strength of the Loblaw control label program has also allowed Loblaw to expand its *President's Choice* brand to financial services. Since its launch in 1998, the number of customers using *President's Choice Financial* services has grown and the range of products and services now available includes chequing and savings accounts, mortgages, RRSPs, loans and lines of credit. These services are provided by the direct banking division of a major Canadian chartered bank. *President's Choice Bank*, a subsidiary of Loblaw, launched the *President's Choice Financial MasterCard®* in March 2001 throughout Canada except Quebec, where it was launched in February 2004. As at December 31, 2005, approximately \$1.0 billion of credit card receivables had been securitized and \$247 million were held by *President's Choice Bank*.

In October 2003, Loblaw introduced *PC Financial* auto and home insurance through its subsidiary, *PC Financial Insurance Agency Inc.* ("PC Agency"), to selected markets in Ontario. An expanded rollout to Quebec and Alberta occurred in 2005. With *PC Financial* auto and home insurance, customers currently enjoy low rates and some unique product features such as a disappearing deductible, and 24/7 superior claims service. The Company entered into a relationship with Aviva Canada Inc., to provide and underwrite *PC Financial* auto and home insurance. Aviva Canada Inc. is the parent company of one of the largest and most experienced groups of property and casualty insurance providers in Canada. Aviva plc, the parent company of Aviva Canada Inc., is the world's sixth-largest insurance group and its main activities are long-term savings, fund management and general insurance.

In 2005, Loblaw through PC Agency, introduced two new insurance products. *PC Financial* pet insurance for dogs and cats was launched in each Province and Territory except for Quebec, New Brunswick, Prince Edward Island, Newfoundland and Labrador and the Yukon Territory and is underwritten by SecuriCan General Insurance Company. *PC Financial* travel insurance is currently available in all provinces and territories except for New Brunswick, Newfoundland and Labrador and Quebec and will be launched in Newfoundland and Labrador in 2006. *PC Financial* travel insurance is underwritten by Industrial Alliance Pacific Life Insurance Company and Industrial Alliance Pacific General Insurance Company.

In late 2005, Loblaw introduced the *PC Mobile* line of prepaid cellular phone services and related accessories. *PC Mobile* services are provided in conjunction with Bell Mobility®.

Further information on trends affecting Loblaw and Loblaw's strategies can be found in the Management's Discussion and Analysis section of Loblaw's 2005 Annual Report ("Loblaw MD&A"). This information is incorporated by reference and is available at [www.sedar.com](http://www.sedar.com) or [www.loblaw.ca](http://www.loblaw.ca).

#### IV. DESCRIPTION OF THE BUSINESS

##### Weston Foods

Weston Foods is a significant participant in the North American baking industry with certain assets in the Ontario dairy industry.

##### Facilities and Principal Products

Weston Foods has developed from one small bakery in 1882 to operating predominantly across Canada and the central and eastern United States. The segment produces a variety of fresh, frozen (raw dough, pre-proofed, par-baked and fully baked) and specialty bakery products including: breads, dough, rolls, bagels, English muffins, tortillas, doughnuts, cakes, sweet goods, pies, ice cream cones and sandwich wafers, crackers and other baked goods. The Ontario dairy operation is a processor of fluid milk and shelf stable milk based products with two production facilities in Ontario. In addition, the dairy operations also distribute numerous products under the *Neilson* brand including juices, drinks, yogurt, sour cream and butter in several combinations of sizes and flavours.

Significant production facilities are geographically located in Canada and the United States as follows:

<u>CANADA</u>		<u>UNITED STATES</u>	
<u>Province</u>	<u>Number of Locations</u>	<u>State</u>	<u>Number of Locations</u>
Ontario	13	Pennsylvania	10
Quebec	9	New York	5
Alberta	4	Wisconsin	2
Saskatchewan	3	California	2
Nova Scotia	2	Florida	2
British Columbia	2	Indiana	2
One location for each of Manitoba and Newfoundland and Labrador	<u>2</u> 35	Virginia	2
		One location for each of: New Jersey, Connecticut, Maryland, South Dakota, Georgia, Nebraska, Washington, North Carolina	<u>8</u> 33

Weston Foods sells its products through a variety of customer channels within the North American food retailing market including many national and regional supermarkets, mass merchandisers, drug stores, wholesale and club stores and convenience store chains, food service distributors and outlets as well as other food retailing customers, and devotes a considerable amount of effort in building and maintaining consumer brand awareness. Weston Foods is also a provider of control label products to retailers and

consumer food companies, a supplier of ice cream cones and sandwich wafers to the dairy industry and a supplier of Girl Scout cookies.

Weston Foods distributes most of its fresh bakery and fresh dairy products through direct store delivery route systems. Frozen and other specialty bakery products as well as long shelf life dairy products are distributed primarily through warehouse channels using a combination of owned and outsourced fleet facilities.

### Competitive Conditions

The North American bakery industry is both mature and competitive. Management regularly reviews and monitors operating plans and results, including market share. When necessary, they will modify their operating strategies including restructuring of production facilities, reviewing prices and adjusting product offerings to reflect consumer trends, including those related to health or nutritional concerns, repositioning of brands and/or marketing programs to take into account competitive activity. Weston Foods is one of the leading suppliers of bakery and dairy products in each of the major markets in which it operates and the development of its key brands and their related consumer awareness is a significant competitive advantage for Weston Foods.

In 2004, one of Weston Foods' major competitors in the United States, Interstate Bakeries, filed for Chapter 11 bankruptcy protection. At present, Interstate remains under bankruptcy protection and it is unclear how this will affect the competitive environment in the United States. As a result of the difficult sales environment being experienced by United States traditional food retailers, coupled with the continuing cost pressures being experienced by the industry, Weston Foods anticipates that competitive business restructuring will continue in 2006. Although the outcome and the impact, if any, on the Company's consolidated financial results from this anticipated restructuring is uncertain, Weston Foods will closely monitor the United States food retail market and, if required, adjust its strategies and programs as necessary. The industry has seen significant consolidation over the last decade and the Company expects this to continue.

Weston Foods' brands provide it with a strategic advantage over its competitors. Its premium and popular brands, including *Arnold*, *Country Harvest*, *D'Italiano*, *Dutch Country*, *Entenmann's*, *Freihofer's*, *Gadoua*, *Maier's*, *Neilson*, *Stroehmann*, *Thomas'*, *Weston*, and *Wonder*, provide Weston Foods with strong core brands and product lines that enhance consumer loyalty, trusted as they are for quality, great taste and freshness.

### Raw Materials

Wheat, flour, sugar, vegetable oil, yeast and cocoa are the primary ingredients for bakery products. These ingredients are readily available in sufficient quantities. There are numerous sources of supply for these primary ingredients. In order to minimize the effect of fluctuations in the prices of its important raw materials, forward contracts with suppliers or financial contracts such as exchange traded commodity futures contracts, are used to partially hedge the cost of anticipated purchases of certain raw materials. Nonetheless these items are subject to fluctuations. As a fluid milk processor, the Ontario dairy operation receives all of its raw milk through Ontario's milk marketing board (Dairy Farmers of Ontario). In the event of a milk shortage, raw milk that would otherwise have been used for other purposes would be redesignated and made available for the fluid milk system.

## Intellectual Property

It is the practice of the Company to register or otherwise protect its intellectual property, including trademarks, brand names and patents, in all jurisdictions in which it operates. Trademarks and brand names used in Weston Foods are important assets to the Company and are defended vigorously. They provide Weston Foods with a competitive advantage and accordingly management spends considerable effort supporting the Company's key brand names. Weston Foods has built a portfolio of strong brand names. Where used in this Annual Information Form, trademarks and brand names are in italics. The trademarks of the Company when used in this Annual Information Form are presented in *italics*.

Key brand names used by Weston Foods include *Arnold, Country Harvest, D'Italiano, Dutch Country, Entenmann's, Freihofer's, Gadoua, Maier's, Neilson, Stroehmann, Thomas', Weston, and Wonder*. All fluid products are produced under *Neilson* trade marks – *Neilson, Neilson Trutaste, Neilson Trucalcium, Dairy Oh!, Moojo™*. Weston Foods has an exclusive licensing agreement with Cadbury to use the following brand names on dairy beverages: *Caramilk®, Jersey Milk™* and *Crispy Crunch®*, some of Canada's leading chocolate bars. In addition, Weston Foods has an exclusive manufacturing, sales and distribution agreement with Nestlé Canada for *Nesquik®, Coffee Crisp®, Rolo®* and *Power Bar®* shakes, and *Coffee-mate®* liquid whitener. Also, Weston Foods has agreements with Weight Watchers International in both Canada and the United States with respect to the manufacturing, sale and distribution of baked products under its brands.

## Seasonality

Operations, specifically inventory levels, sales volumes and product mix, are impacted to some degree by certain holiday periods throughout the year and the summer months. Management continuously monitors the impact holidays and weather may have on its operations and adjusts inventory levels and production and delivery schedules as required.

## Employees

A majority of the approximately 17,500 full and part time employees in the bakery and dairy operations are covered by various collective agreements, almost all of which are negotiated independently on a plant by plant or unit by unit basis, typically for terms of three or more years. No single agreement is of predominant importance to overall operations.

## Environmental and Health and Safety Matters

Weston Foods has environmental, health and workplace safety programs in place and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, Weston Foods employs environmental risk assessments and audits using internal and external resources together with effective employee awareness programs throughout its operating locations.

Weston Foods endeavours to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound environmental stewardship and ecological considerations. Environmental protection requirements do not and are not expected to have an adverse effect on Weston Food's financial performance. The Environmental, Health and Safety Committee of the Board of Directors of Weston receives regular

reporting from management addressing current and potential future issues, identifying new legislative concerns and related communication efforts.

### Food Safety and Labelling

Weston Foods is subject to potential liabilities connected with its business operations, including potential exposures associated with product defects, food safety and product handling. Such liabilities may arise in relation to the manufacturing, preparation, storage, distribution and display of food products.

Weston Foods' sales are generated from food products and Weston Foods could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could negatively affect Weston Foods' financial performance. Procedures are in place to manage such events, should they occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by Weston Foods' insurance program. In addition, the Company has food safety procedures and programs, which address safe food handling and preparation standards. Weston Foods endeavours to employ best practices for the storage and distribution of food products and is intensifying the campaign for consumer awareness of safe food handling and consumption.

### Research and Development and New Products

Weston Foods' product development teams have developed important proprietary formulas, recipes and technological expertise. In addition, from time to time, Weston Foods enters into strategic relationships with other food processing or branded companies to leverage off each other's expertise or brands.

In 2005, Weston Foods responded to the evolving consumers' needs for healthier, better-for-you products which still taste great by focusing on the global trends of whole grains, Omega-3 and fibre. Weston Foods responded by improving *Country Harvest* bread to be made with 100% whole grain and a source of Omega-3. In the United States, a new 100% whole wheat bread, *Arnold Double Fibre*, was launched in 2005 under the *Whole Grain Classics* brand. *Wonder* 100% whole wheat breads were also improved to add the germ back to the whole wheat flour, making these breads also 100% whole grain. Weston Foods improved offering of Weight Watchers brand products includes a multigrain variety and the remaining varieties were converted to 100% whole wheat. In the United States, a successful launch of Weight Watchers 100% whole wheat bread, traditional grains bread, bagels and English muffins were introduced nationally. The *Wonder* brand has further expanded to reach children with healthier 100% whole wheat options for hot dog, hamburger buns and English muffins.

During 2005 in the United States, Weston Foods introduced a new and expanded range of products including *Enten-minis* single serving, hand-held cake product in the fresh-baked sweet goods category and *Thomas' Squares* Bagelbread, *Thomas' Hearty Grains* English Muffins, *Thomas' Mini Bagels* and *Dutch Country* Family Grain breads in the fresh baked category.

In 2004, the Canadian dairy operations launched *Neilson Dairy Oh!* milk, the world's first milk enriched with DHA, an essential Omega-3 fatty acid. *Dairy Oh!* milk comes from cows that are fed a unique diet. In addition, the Nestlé Canada licensed products were expanded to include the Power Bar® protein shake. In 2005, the Canadian dairy operations continued to expand its *Neilson Dairy Oh!* milk brand, launching a single serve version of the product and expanding geographically into western Canada. In addition, Weston Foods has renewed its licensing agreement with Cadbury for its branded dairy beverages.

## Customers

Weston Foods' customers include many large national and regional supermarkets, mass merchandisers, drug stores, wholesale and club stores, convenience store chains, food service distributors and outlets as well as other food retail customers across Canada and selected markets in the United States. No single customer, other than Loblaw, accounts for a significant portion of Weston Foods sales. For the two most recently completed fiscal years, sales by Weston Foods to Loblaw amounted to \$814 million and \$746 million, respectively.

## Foreign Operations

Weston Foods operations are located across Canada and mainly in the eastern part of the United States. Approximately 68% of Weston Foods sales are in the United States. Any significant economic or competitive pressures, including currency fluctuations in the United States dollar relative to the Canadian dollar, would impact consolidated Weston Foods results. The Company has several wholly-owned foreign subsidiaries which act as holding companies for certain assets.

Further information on Weston Foods' business can be found in the MD&A, which information is incorporated herein by reference and available at [www.weston.ca](http://www.weston.ca).

## **Loblaw**

### Operations

Loblaw is Canada's largest food distributor and a leading provider of general merchandise, drugstore and financial products and services. Loblaw is committed to providing consumers across the country with the best one-stop shopping destination for their food and everyday household needs. For over 45 years, Loblaw has supplied the Canadian market with innovative products and services through corporate, franchised and associated stores. Corporate owned store banners include *Atlantic Superstore*, *Dominion* (in Newfoundland and Labrador), *Extra Foods*, *Loblaws*, *Maxi*, *Maxi & Cie*, *Provigo*, *The Real Canadian Superstore* and *Zehrs Markets* and a number of wholesale outlets operating as *Cash & Carry*, *Presto* and *The Real Canadian Wholesale Club*. Loblaw's franchised and associated stores operate under the trade names *Atlantic SaveEasy*, *Fortinos*, *Lucky Dollar Foods*, *no frills*, *Shop Easy Foods*, *SuperValu*, *Valu-mart* and *Your Independent Grocer*. The store network is supported by 26 Loblaw owned and 2 third-party warehouse facilities located across Canada.

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

## Geographic and Banner Summary

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

	<b>Corporate Stores</b>	<b>Franchised Stores</b>	<b>Associated Stores</b>	<b>Independent Accounts</b>	<b>Warehouses</b>
Newfoundland and Labrador	16	7	9	500	2
Prince Edward Island	5	3	1	151	
Nova Scotia	36	22	1	523	2
New Brunswick	22	23	6	296	2
Quebec	252	22	341	2,533	4
Ontario	169	257	16	86	6
Manitoba	24	4	39	15	1
Saskatchewan	34	15	26	1,657	2
Alberta	67	4	14	2,096	5
Northwest Territories	3		1	1	
Yukon	1	2			
British Columbia	41	43	18		2
<b>Total</b>	<b>670</b>	<b>402</b>	<b>472</b>	<b>7,858</b>	<b>26</b>

The average store size at year end 2005 for corporate stores and franchised stores was 56,100 and 27,100 square feet, respectively. The average store size for both corporate stores and franchised stores has increased by 4.69% and 5.02% respectively over the last three years.

Whenever practical, Loblaw follows a strategy of purchasing land for future store locations. At year end 2005, Loblaw owned 72% of the real estate on which its corporate stores are located, as well as various properties under development or held for future development. The Loblaw owned properties are essentially unencumbered, with \$38 million in mortgage debt on total fixed assets including real estate, having a net book value of approximately \$7.8 billion at year end 2005. The total square footage of the corporate stores is approximately 37.6 million square feet.

For the recently completed year, Loblaw operated directly through corporate stores and indirectly through franchised stores and associated stores under the following banners:

<b>Corporate Banners</b>	<b>Number of Stores</b>	<b>Franchised and Associated Banners</b>	<b>Number of Stores</b>
Atlantic Superstore	51	Atlantic SaveEasy	52
Cash and Carry (Ontario, Atlantic, Quebec under the name Presto)	57	Extra Foods	25
Dominion <sup>1</sup> (in Newfoundland and Labrador)	14	Fortinos	21
Extra Foods	78	Lucky Dollar Foods	67
Loblaws	95	No Frills	130
Maxi	97	Provigo	26
Maxi & Cie	15	Shop Easy Foods	52
Provigo	81	SuperValu	25
The Real Canadian Superstore	88	Valu-mart	68
The Real Canadian Wholesale Club	37	Your Independent Grocer	51
Zehrs Markets	52	Other Franchised & Associated Banners	357
Other Corporate Banners	5	Total	874
<b>Total</b>	<b>670</b>		

<sup>1</sup> Trademark used under license

A significant portion of Loblaw's stores are owned and operated by independent franchisees. Franchisees enter into agreements with Loblaw that generally require the franchisee to purchase inventory from Loblaw and pay certain fees in exchange for services provided by Loblaw and for the right to use certain trademarks owned by Loblaw. Services available to the franchisees by Loblaw include store set-up, marketing support, accounting, employee development and pension and benefit administration. Independent franchisees generally lease the land and store building from Loblaw and, when eligible, may obtain financing through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixtures and equipment.

### Competitive Conditions

The retail industry in Canada is a changing and competitive market. Consumer needs drive changes in the industry, which are impacted by changing demographic and economic trends such as changes in disposable income, increasing ethnic diversity, nutritional awareness and time availability. Over the past several years, consumers have demanded more choice, value and convenience.

Loblaw competes with non-traditional competitors as well as traditional supermarkets. Recent industry changes have seen the expansion of non-traditional competitors, such as mass merchandisers, warehouse clubs, limited assortment stores, discount stores, convenience stores, drugstores and specialty stores, which continue to increase their offerings of products typically associated with traditional supermarkets. Over the past several years, there has been an increase in the number of retail outlets that traditionally exclusively featured food, general merchandise or drugstore items that now offer a selection of these items, resulting in what is commonly referred to in the industry as "channel blurring". This evolution of the retail landscape presents a number of issues for traditional grocers: the need to re-position conventional supermarkets to either expand or, conversely, better focus their offerings; the reality of lower prices offered by discount models and the obvious need to reduce operating and labour costs in order to maintain earnings in light of lower prices and increased competition.

Loblaw believes that it is in a strong competitive position in Canada. Loblaw's focus is on new store growth, expansion of departments and services and the renewal of the existing store base, while controlling operating costs and rationalizing and centralizing similar functions. This allows Loblaw to perform in an increasingly competitive market, which is continuously evolving with the addition of warehouse clubs, the growth of discount food formats and the increasing marketing of food by mass merchandisers, drugstores and other specialty retailers. Another competitive advantage Loblaw has is its control label program, which promotes customer loyalty and allows pricing flexibility with respect to national brands.

### Customers

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

### Products and Services

Loblaw has developed a highly successful line of control label products and services that are sold or made available in its corporate stores, and franchised and associated stores and are available on a limited basis to certain independent customers. The Loblaw product development team works closely with vendors in developing products for its control label brands.

There are currently approximately 7,000 control label products marketed by Loblaw under brand names including *President's Choice*, *PC*, *President's Choice Organics*, *PC Blue Menu*, *PC Mini Chefs*, *no name*, *Club Pack*, *GREEN*, *EXACT*, *Teddy's Choice*, *Life@Home* and, starting in 2006, *Joe Fresh Style*.

In recent years a selection of general merchandise items has been developed under the *PC* and *Life@Home* brands as part of the expansion into general merchandise departments. In 2005, approximately 1,600 new control label general merchandise products were introduced. These products are sourced world-wide and cater to all areas of the home – bed, bath, kitchen, home decor and outdoor living.

Loblaw has also extended its *President's Choice* brand to include *President's Choice Financial* banking services and products, which are provided by the direct banking division of a major Canadian chartered bank.

The products and services included in the *President's Choice Financial* offering are available at attractive rates. The use of many of these products and services allows customers to earn *PC* points that are redeemable towards free groceries and other rewards. In March 2001, *President's Choice Bank* successfully launched the *President's Choice Financial MasterCard*® throughout Canada except Quebec, where it was launched in February 2004. Third-party service providers process credit card transactions and provide a call centre (services/support) in addition to credit and fraud monitoring for the *President's Choice Financial MasterCard*®.

Loblaw offers *PC Financial* auto and home insurance through its subsidiary *PC Financial Insurance Agency Inc.* (“*PC Agency*”) to selected markets in Ontario with an expanded rollout to Quebec and Alberta in 2005. *PC Financial* pet insurance for dogs and cats was launched in each Province and Territory except for Quebec, New Brunswick, Prince Edward Island, Newfoundland and Labrador and the Yukon Territory. *PC Financial* travel insurance is currently available in all provinces and territories except for New Brunswick, Newfoundland and Labrador and Quebec and will be launched in Newfoundland and Labrador in 2006. *PC Financial* travel insurance is underwritten by Industrial Alliance Pacific Life Insurance Company and Industrial Alliance Pacific General Insurance Company.

Loblaw has introduced the *PC Mobile* line of prepaid cellular phone services and related accessories. *PC Mobile* services are provided in conjunction with Bell Mobility®.

### Intellectual Property

Loblaw has established procedures to register or otherwise protect its intellectual property including the trademarks used in its store-trading or banner names and those associated with its control label programs. Store-trading or banner names are associated with specific retail concepts and are important to both corporate store and franchised store operations. Franchisees use the banner names associated with their franchised program pursuant to licensing arrangements. The Loblaw trademarks used in connection with its control label program are discussed under the section “Products and Services”. Other intellectual property of Loblaw includes domain names, packaging designs and product formulations and specifications. The intellectual property rights associated with and used in connection with the Loblaw business are important assets and are defended vigorously.

### Supply Chain

Loblaw's supply chain is responsible for the flow of goods and information between its vendors and suppliers and Loblaw's distribution centres and ultimately to its stores. In some cases certain goods flow directly to Loblaw's stores from the vendors. Loblaw continuously evaluates its methods of distribution

including its relationship with vendors and suppliers, technology, facilities and modes of transportation. When appropriate, Loblaw implements changes to its supply chain infrastructure to ensure a continued reliable and cost efficient system.

Loblaw's supply chain and distribution network is comprised of a total of 26 owned and leased warehouses and distribution centres. Third-party logistics services are also used, including those in connection with a dedicated general merchandise warehouse and distribution centre located in Pickering, Ontario. Loblaw uses various modes of transportation including its own trucking fleet and third-party common carriers, railways and ships. Loblaw is not dependent on any one party transport provider.

In 2005, Loblaw undertook a significant restructuring of its supply chain network including installation of consistent national supply chain systems. Implementation challenges arising from certain parts of this initiative were encountered during the conversion of the Calgary, Alberta general merchandise distribution centre to a new national information technology platform. Also, in Ontario, the transfer of the general merchandise warehouse and distribution activities to a new facility owned and operated by a third-party continued into the fourth quarter of 2005. Complexities were experienced during the start-up phase and as a result, service levels were below expectations. Loblaw has taken steps to correct difficulties experienced in its general merchandise supply chain, and expects these issues to be resolved in 2006.

Loblaw has committed to a capital project involving the construction of a new food distribution center in Ajax, Ontario, which is scheduled to open in late 2007 or early 2008.

#### Seasonality

Loblaw's operations as they relate to food, specifically inventory levels, sales volume and product mix, are impacted to some degree by certain holiday periods in the year. As Loblaw expands the breadth of its general merchandise offerings it may increase the number of seasonal products offered and its operations may therefore be subject to more seasonal fluctuations.

#### Foreign Operations

Glenhuron Bank Limited, a wholly owned indirect subsidiary of Loblaw with operations in Barbados, is engaged in financial activities including cash management and treasury-related services.

#### Employees

As of December 31, 2005, Loblaw and its franchisees together employ over 134,000 full-time and part-time employees.

#### Environmental and Health and Safety Matters

Loblaw has environmental, health and workplace safety programs in place and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, Loblaw employs environmental risk assessments and audits using internal and external resources together with effective employee awareness programs throughout its operating locations.

Loblaw endeavours to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound environmental stewardship and ecological considerations. Environmental protection requirements do not and are not

expected to have an adverse effect on Loblaw's financial performance. The Environmental, Health and Safety Committee of the Board of Directors receives regular reporting from management addressing current and potential future issues, identifying new legislative concerns and related communication efforts.

### Food Safety and Labelling

Loblaw is subject to potential liabilities connected with its business operations, including potential exposures associated with product defects, food safety and product handling. Such liabilities may arise in relation to the storage, distribution and display of products and, with respect to the Loblaw control label products, in relation to the production, packaging and design of products.

A majority of Loblaw's sales are generated from food products and Loblaw could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could negatively affect the Company's financial performance. Procedures are in place to manage such events, should they occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by the Loblaw insurance program. In addition, Loblaw has food safety procedures and programs, which address safe food handling and preparation standards. Loblaw endeavours to employ best practices for the storage and distribution of food products and is intensifying the campaign for consumer awareness of safe food handling and consumption.

Loblaw strives to ensure its control label products have informative nutritional labelling so that today's health conscious consumer can make informed choices. Recently, the Loblaw portfolio of control label food products has undergone a redesign which makes this data more accessible.

Further information on Loblaw's business can be found in the Loblaw MD&A which is incorporated herein by reference and available at [www.loblaw.ca](http://www.loblaw.ca).

## **V. PRIVACY AND ETHICS**

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

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

Loblaw has adopted a Supplier Code of Conduct which sets out Loblaw's expectations of its suppliers in the area of social, environmental and legal/compliance.

## **VI. OPERATING AND FINANCIAL RISKS AND RISK MANAGEMENT**

A detailed discussion of operating and financial risks and risk management strategies relating to the Company are included in the MD&A on pages 1 through 49 of Weston's 2005 Financial Report, included

in its Annual Report and relating to Loblaw in the Loblaw MD&A on pages 1 through 35 of the Loblaw 2005 Financial Report, included in its Annual Report. Both the MD&A and the Loblaw MD&A are incorporated herein by reference.

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

## **VII. CAPITAL STRUCTURE AND MARKET FOR SECURITIES**

### **Capital Structure**

The capital structure of Weston is composed of common shares and preferred shares.

#### Common Shares

At the end of 2005, there were 129,038,226 common shares outstanding and 1,101 registered common shareholders. There are an unlimited number of authorized common shares with voting rights of one vote per common share.

#### Preferred Shares – Series I

At the end of 2005, there were 9,400,000 5.80% non-voting Preferred Shares, Series I outstanding, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.45 per share per annum. Weston may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after December 15, 2006 at \$26.00  
On or after December 15, 2007 at \$25.75  
On or after December 15, 2008 at \$25.50  
On or after December 15, 2009 at \$25.25  
On or after December 15, 2010 at \$25.00

At any time after issuance, Weston may, at its option, give the holder of these preferred shares the right, at the option of the holder, to convert the holder's preferred shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston. Upon liquidation, dissolution or winding up of Weston, each Preferred Share, Series I holder, in preference to any payments to be made to holders of common shares, is entitled to \$25.00 per share plus an amount equal to all dividends accrued thereon. Preferred Share Series I holders are not entitled to any further distribution of the assets of Weston.

#### Preferred Shares – Series II

At the end of 2005, there were 10,600,000 5.15% non-voting Preferred Shares, Series II outstanding which entitle the holder to a fixed cumulative preferred cash dividend of \$1.2875 per share per annum. On or after April 1, 2009, Weston may, at its option, redeem for cash these outstanding preferred shares, in whole or in part, at \$25.00 per share. On and after July 1, 2009, these outstanding preferred shares are convertible, at the option of the holder, into a number of Weston's common shares determined by dividing \$25.00 by the greater of \$2.00 and 95% of the then current market price of Weston's common shares. At any time after issuance, Weston may, at its option, give the holder of these preferred shares the right, at the option of the holder, to convert the holder's preferred shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston. Upon

liquidation, dissolution or winding up of Weston, each Preferred Share, Series II holder, in preference to any payments to be made to holders of common shares, is entitled to \$25.00 per share plus an amount equal to all dividends accrued thereon. Preferred share Series II holders are not entitled to any further distribution of the assets of Weston.

### Preferred Shares – Series III

During the second quarter of 2005, Weston issued 8,000,000 5.20% non-voting Preferred Shares, Series III, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.30 per share per annum. On or after July 1, 2010, Weston may, at its option, redeem for cash these outstanding preferred shares, in whole or in part, as follows:

On or after July 1, 2010 at \$26.00 per share  
On or after July 1, 2011 at \$25.75 per share  
On or after July 1, 2012 at \$25.50 per share  
On or after July 1, 2013 at \$25.25 per share  
On or after July 1, 2014 at \$25.00 per share

At any time after issuance, Weston may, at its option, give the holder of these preferred shares the right, at the option of the holder, to convert the holder's preferred shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston. Upon liquidation, dissolution or winding up of Weston, each Preferred Share, Series III holder, in preference to any payments to be made to holders of common shares, is entitled to \$25.00 per share plus an amount equal to all dividends accrued thereon. Preferred share Series III holders are not entitled to any further distribution of the assets of Weston.

### Preferred Shares – Series IV

During the third quarter of 2005, Weston issued 8,000,000 5.20% non-voting Preferred Shares, Series IV, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.30 per share per annum. On or after October 1, 2010, Weston may, at its option, redeem for cash these outstanding preferred shares, in whole or in part, as follows:

On or after October 1, 2010 at \$26.00 per share  
On or after October 1, 2011 at \$25.75 per share  
On or after October 1, 2012 at \$25.50 per share  
On or after October 1, 2013 at \$25.25 per share  
On or after October 1, 2014 at \$25.00 per share

At any time after issuance, Weston may, at its option, give the holder of these preferred shares the right, at the option of the holder, to convert the holder's preferred shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston. Upon liquidation, dissolution or winding up of Weston, each Preferred Share, Series IV holder, in preference to any payments to be made to holders of common shares, is entitled to \$25.00 per share plus an amount equal to all dividends accrued thereon. Preferred share Series IV holders are not entitled to any further distribution of the assets of Weston.

There are 61 registered preferred shareholders and all outstanding preferred shares were available for public trading.

## Trading Price and Volume

The Weston common shares and preferred shares are listed and posted for trading on The Toronto Stock Exchange under the share symbols “WN”, “WN.PR.A”, “WN.PR.B” and “WN.PR.C”, and “WN.PR.D”, respectively.

The monthly high-low trading prices for common shares, and the average daily volume by month for the year ended December 31, 2005, are as follows:

Common Shares			
Month	High (\$ per common share)	Low (\$ per common share)	Avg. Daily Vol. by Month (in shares)
January	111.00	104.73	62,956
February	115.50	106.91	72,981
March	110.00	105.10	60,445
April	115.00	106.50	56,027
May	115.51	109.53	57,623
June	111.50	107.10	62,785
July	110.00	105.25	72,377
August	109.25	103.00	61,416
September	111.47	103.01	72,422
October	105.30	97.25	71,049
November	100.82	90.00	76,127
December	92.50	80.11	103,673

The monthly high-low trading prices for Preferred Shares, Series I, II, III, and IV and the average daily volume by month for the year ended December 31, 2005, are as follows:

Month	Preferred Shares Series I			Preferred Shares Series II			Preferred Shares Series III			Preferred Shares Series IV		
	High (\$ per preferred share)	Low (\$ per preferred share)	Avg. Daily Vol. by Month (in shares)	High (\$ per preferred share)	Low (\$ per preferred share)	Avg. Daily Vol. by Month (in shares)	High (\$ per preferred share)	Low (\$ per preferred share)	Avg. Daily Vol. by Month (in shares)	High (\$ per preferred share)	Low (\$ per preferred share)	Avg. Daily Vol. by Month (in shares)
January	27.57	26.75	5,134	27.74	27.04	2,355						
February	27.56	26.71	4,345	28.00	27.52	7,746						
March	26.80	25.91	22,349	27.69	26.60	2,998						
April	26.40	25.51	25,263	27.15	26.55	28,322	25.00	24.11	74,673			
May	26.85	26.02	3,977	27.75	26.60	3,293	25.15	24.10	93,732			
June	26.95	26.25	3,971	27.99	27.16	7,452	25.63	25.15	24,959			
July	26.70	26.01	3,190	27.55	27.01	7,275	25.56	25.00	18,989			
August	27.14	26.30	3,944	27.75	26.76	2,083	25.99	25.15	16,992	26.24	24.80	29,055
September	26.90	26.27	3,911	27.75	27.10	2,180	26.29	25.50	22,848	26.18	25.45	21,279
October	26.64	25.80	3,570	27.90	27.27	2,280	25.85	25.26	9,758	25.89	25.07	20,791
November	27.73	26.37	4,533	28.00	27.27	11,589	26.74	25.40	6,737	26.69	25.38	19,688
December	27.20	26.35	2,904	27.80	26.86	22,033	26.82	26.00	11,113	26.70	26.00	7,033

## Commercial Paper and Long Term Debt

The Company also has the following commercial paper and long term debt outstanding as at December 31, 2005:

(\$ Millions)	<u>As at December 31, 2005</u>	<u>As at December 31, 2004</u>
Commercial Paper	\$498	\$840
Long Term Debt due within a year	361	222
Long Term Debt	<u>5,913</u>	<u>6,004</u>
Total	<u>\$6,772</u>	<u>\$7,066</u>

Weston's and Loblaw Companies' Debentures and Medium Term Notes ("MTN") are not listed or quoted on a recognized exchange. The following MTN were issued during 2005:

<u>(\$ Millions)</u>	<u>Net Proceeds</u>	<u>Face Value</u>	<u>Due Date</u>
Loblaw Companies	\$298	\$300	2036

Credit Ratings (Canadian Standards)

Weston's credit ratings for its securities are as follows:

	<u>Dominion Bond Rating Service</u>	<u>Standard &amp; Poor's</u>
Commercial Paper	R-1 (low)	A-1 (low)
Medium Term Notes	A (low)	A-
Exchangeable Debentures	BBB (high)	
Preferred Shares	Pfd-2 (low)	P-2
Other Notes and Debentures	A (low)	A-

The rating organizations listed above base their credit ratings on quantitative and qualitative considerations. In January 2006, Standard & Poor's changed their outlook on the trend of Weston's long term debt and preferred shares from "stable" to "negative". In addition, Dominion Bond Rating Service and Standard and Poor's changed their outlook on Loblaw's long term debt from "stable" to "negative". These ratings are intended to give an indication of the risk that Weston will not fulfill its obligations in a timely manner. These ratings are not recommendations to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

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

Dominion Bond Rating Service

*Commercial Paper*

Rating: R-1 (low):

Satisfactory credit quality. The overall strength and outlook for key liquidity, debt and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors which exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry.

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

Rating: A (low):

Satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA rated entities. While a respectable rating, entities in the "A" category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated companies.

*Exchangeable Debentures*

Rating: BBB (high):

Adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adversities present which reduce the strength of the entity and its rated securities.

### *Preferred Shares*

Rating: Pfd-2 (low):

Satisfactory credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet, and coverage ratios are not as strong as Pfd-1 rated companies. Generally, “Pfd-2” ratings correspond with companies whose senior bonds are rated in the “A” category.

Each DBRS rating category is appended with one of three rating trends. “Positive”, “Stable”, or “Negative”. The rating trend helps to give the investor an understanding of DBRS’s opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

### Standard & Poor’s

#### *Commercial Paper*

Rating: A-1 (low):

A short-term obligation rated ‘A-1’ is rated in the highest category by Standard & Poor’s. The obligor’s capacity to meet its financial commitment on the obligation is strong.

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

Rating: A-:

An obligation rated ‘A’ is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong.

#### *Preferred Shares*

Rating: P-2:

A preferred share rated of ‘P-2’ exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet its financial commitments.

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

## **VIII. DIVIDENDS**

The declaration and payment of dividends are at the discretion of the Board. Weston’s common share dividend policy is to maintain a common dividend payment equal to approximately 20% to 25% of the prior year’s adjusted basic net earnings per common share from continuing operations, giving consideration to the year end cash position, future cash flow requirements and investment opportunities.

### **Restrictions**

Under its 12.70% Promissory Note due November 8, 2030, Weston is restricted from paying cash dividends on its common shares if a measurement of the Company’s shareholder’s equity falls below certain predetermined levels. To date, Weston has never been restricted from paying cash dividends by

reason of not satisfying this requirement and does not anticipate that it will be unable to satisfy this restriction in the future.

The amount of cash dividends declared per common and preferred shares for each of the three most recently completed years is as follows:

<b>Dividends declared per share (\$)</b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Common shares	1.44	1.44	1.20
Preferred shares Series I	1.45	1.45	1.45
Preferred shares Series II	1.29	1.29	1.29
Preferred shares Series III	0.92	N/A	N/A
Preferred shares Series IV	0.54	N/A	N/A

Subsequent to year end 2005, the Board of Directors declared a quarterly dividend of 36 cents per common share, payable April 1, 2006.

## **IX. DIRECTORS AND OFFICERS**

The following list of Directors and Officers is current to March 22, 2006.

### **Directors**

<u>Name, Province and Country of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>
W. Galen Weston, O.C., <sup>1*</sup> Ontario, Canada	Chairman and President, George Weston Limited and Chairman, Loblaw Companies Limited	1967
A. Charles Baillie, <sup>2*3</sup> Ontario, Canada	Corporate Director	2003
Robert J. Dart Ontario, Canada	Vice Chairman, Wittington Investments, Limited (holding company)	1994
Peter B. M. Eby, <sup>1,2,3*</sup> Ontario, Canada	Corporate Director	2000
Phillip W. Farmer, <sup>2,5</sup> Florida, U.S.	Corporate Director	2003
Anne L. Fraser, <sup>5*</sup> British Columbia, Canada	Corporate Director	1995
Anthony R. Graham, <sup>1,3,4*</sup> Ontario, Canada	President, Wittington Investments, Limited	1996
Mark Hoffman, <sup>4,5</sup> London, England	Chairman, Cambridge Research Group (technology transfer and investment company)	1975
John C. Makinson, CBE, <sup>2</sup> London, England	Chairman and Chief Executive Officer, The Penguin Group (international media company)	1997
J. Robert S. Prichard, O.C., O.Ont., <sup>3</sup> Ontario, Canada	President and Chief Executive Officer, Torstar Company (media and newspaper company)	2000

**Directors (continued)**

<u>Name, Province and Country of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>
M. D. Wendy Rebanks, <sup>4,5</sup> Ontario, Canada	Corporate Director	1994
Galen G. Weston Ontario, Canada	Senior Vice President, Corporate Development, Loblaw Companies Limited	2003

\* Chairman of Committee

1. Executive Committee
2. Audit Committee
3. Governance, Human Resource, Nominating and Compensation Committee
4. Pension and Benefits Committee
5. Environmental, Health and Safety Committee

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

**Officers**

<u>Name, Province and Country of Residence</u>	<u>Principal Occupation</u>
W. Galen Weston, O.C. Ontario, Canada	Chairman and President
Richard P. Mavrinar Ontario, Canada	Chief Financial Officer
Gordon A.M. Currie Ontario, Canada	Executive Vice President, Secretary & General Counsel
Robert A. Balcom Ontario, Canada	Senior Vice President, Assistant Secretary
Roy R. Conliffe Ontario, Canada	Senior Vice President, Labour Relations
Louise M. Lacchin Ontario, Canada	Senior Vice President, Finance
Donald G. Reid Ontario, Canada	Senior Vice President
Robert G. Vaux Ontario, Canada	Senior Vice President, Corporate Development
Geoffrey H. Wilson Ontario, Canada	Senior Vice President, Investor Relations and Public Affairs

All the foregoing directors and executive officers have held their present occupations or other positions with the same or associated companies or organizations for the past five years except: Mr. Gordon A.M. Currie, who prior to September 2005 was Senior Vice President and General Counsel of Centrica North America and prior to that a partner at Blake, Cassels & Graydon LLP; Mr. A. Charles Baillie, who was formerly Chairman of the Board of Toronto Dominion Bank and previously Chairman and Chief Executive Officer of Toronto Dominion Bank; Mr. Phillip W. Farmer was Chairman, President and Chief Executive Officer of Harris Company located in Melbourne, Florida and Mr. Galen G. Weston was

previously attending Columbia University from January 2001 to May 2003. Previously, Mr. Galen G. Weston held managerial roles with Loblaw Companies from 1998 to 2001.

As at December 31, 2005 Mr. W. Galen Weston beneficially owned, directly or indirectly, 80,684,148 common shares or 62.5% of the issued and outstanding common shares of the Company and 63.2% of the issued and outstanding common shares of Loblaw Companies. Other directors and senior officers of the Company, as a group, beneficially owned directly or indirectly or exercised control over approximately 855,469 common shares or 0.7% of the issued and outstanding common shares of the Company and less than 1% of the issued and outstanding common shares of Loblaw Companies.

Mr. A. Charles Baillie, a director of the Company, is a director of Dana Corporation which filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code on March 3, 2006. Dana's European, South American, Asian-Pacific, Canadian and Mexican subsidiaries are not included in the Chapter 11 filing.

## **X. TRANSFER AGENTS AND REGISTRARS**

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

## **XI. EXPERTS**

The Company's auditors are KPMG LLP, who has prepared the Auditor's Report to Shareholders in respect of our audited annual consolidated financial statements. KPMG LLP is independent of the Company in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

## **XII. AUDIT COMMITTEE INFORMATION**

The Audit Committee Charter as approved by the Company's Board of Directors on March 10, 2006 is included in Appendix A. The Audit Committee Charter contains specific policies and procedures for the engagement of non-audit services. External auditor service fees by category can be found in the Company's Management Proxy Circular dated March 10, 2006 (the "Proxy Circular"). This information is incorporated by reference and can be found at [www.sedar.com](http://www.sedar.com). The members of the Audit Committee are indicated above. All members of the Audit Committee are independent and financially literate (as those terms are defined in Multilateral Instrument 52-110 of the Canadian Securities Administrators) and have the following education and experience which is relevant to their roles as Audit Committee Members:

Mr. Baillie is a former Chairman and Chief Executive Officer of Toronto Dominion Bank. He obtained an M.B.A from Harvard Business School and is a Fellow of the Institute of Canadian Bankers.

Mr. Eby is a former Vice-Chairman and Director of Nesbitt Burns Inc. He obtained a B.Comm from University of Toronto and an M.B.A. from University of California-Berkeley.

Mr. Farmer is the retired Chairman, President and Chief Executive Officer of Harris Corporation. He obtained a B.Sc. from Duke University.

Mr. Makinson is Chairman and Chief Executive Officer of the Penguin Group and former Group Finance Director of Pearson plc. He obtained a B.A. from Cambridge University.

### **XIII. ADDITIONAL INFORMATION**

1. Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Proxy Circular. Additional financial information is also provided in the Company's consolidated financial statements and MD&A for its most recently completed financial year.
2. Additional information of the Company has been filed on the System for Electronic Document Analysis and Retrieval ("SEDAR"). The Company's Internet address is [www.weston.ca](http://www.weston.ca).
3. Additional information of Loblaw Companies has been filed on SEDAR and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for Loblaw's subsidiary, President's Choice Bank. Loblaw's internet address is [www.loblaw.ca](http://www.loblaw.ca).

**APPENDIX "A"**

**GEORGE WESTON LIMITED**

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**AUDIT COMMITTEE CHARTER**

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Approved by the Board of Directors  
on March 10, 2006

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# GEORGE WESTON LIMITED

## AUDIT COMMITTEE CHARTER

### 1. RESPONSIBILITY

The Audit Committee is responsible for assisting the Board of Directors of the Company (“Board”) in fulfilling its oversight responsibilities in relation to:

- the integrity of the Company’s financial statements;
- the Company’s compliance with legal and regulatory requirements as they relate to the Company’s financial statements;
- the qualifications, independence and performance of the Auditor;
- internal controls and disclosure controls;
- the performance of the Company’s internal audit function; and
- performing the additional duties set out in this Charter or otherwise delegated to the Audit Committee by the Board.

### 2. MEMBERS

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

- each member shall be an unrelated and independent director;
- each member shall be financially literate or agree to become financially literate within a reasonable period of time following the member’s appointment;
- at least one member shall have accounting or financial expertise; and
- at least a majority of the members shall be residents of Canada.

For the purpose of this Charter, the term “unrelated director” shall have the meaning attributed thereto in the Toronto Stock Exchange Company Manual and the term “independent” shall have the meaning attributed thereto in Multilateral Instrument 52-110 *Audit Committees*, each as may be amended from time to time. The term “financial literacy” shall mean the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements, or such other definition as may be

acceptable to the Ontario Securities Commission or other applicable regulator from time to time. The term “accounting or related financial expertise” shall mean the ability to analyze and interpret a full set of financial statements, including the notes thereto, in accordance with Canadian generally accepted accounting principles.

### **3. CHAIR**

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

### **4. TENURE**

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

### **5. QUORUM, REMOVAL AND VACANCIES**

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

### **6. DUTIES**

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

#### **(a) Appointment and Review of Auditor**

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

- select, evaluate and nominate the Auditor to be proposed for appointment or reappointment, as the case may be, by the shareholders;
- review the Auditor’s engagement letter;
- at least annually, obtain and review a report by the Auditor describing:
  - the Auditor’s internal quality-control procedures; and

- any material issues raised by the most recent internal quality-control review, peer review, review by any independent oversight body such as the Canadian Public Accountability Board or the Public Company Accounting Oversight Board, or governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the Auditor and the steps taken to deal with any issues raised in these reviews.

**(b) Confirmation of Independence of Auditor**

At least annually, and before the Auditor issues its report on the annual financial statements, the Audit Committee shall:

- ensure that the Auditor submits a formal written statement describing all relationships between the Auditor and the Company;
- discuss with the Auditor any disclosed relationships or services that may affect the objectivity and independence of the Auditor; and
- obtain written confirmation from the Auditor that it is objective and independent within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of Chartered Accountants to which it belongs.

**(c) Rotation of Engagement Partner/Lead Partners**

The Audit Committee shall, after taking into account the opinions of management, evaluate the performance of the Auditor and the engagement partner/lead partners and shall rotate the engagement partner/lead partners when required or necessary.

**(d) Pre-Approval of Non-Audit Services**

The Audit Committee shall pre-approve the retaining of the Auditor for any non-audit service, provided that no approval shall be provided for any service that is prohibited under the rules of the Canadian Public Accountability Board or the Public Company Accounting Oversight Board, or the Independence Standards of the Canadian Institute of Chartered Accountants. Before the retaining of the Auditor for any non-audit service, the Audit Committee shall consider the compatibility of the service with the Auditor's independence. The Audit Committee may pre-approve the retaining of the Auditor for the engagement of any non-audit services by establishing policies and procedures to be followed prior to the appointment of the Auditor for the provision of such non-audit services. In addition, the Audit Committee may delegate to one or more members the authority to pre-approve the retaining of the Auditor for any non-audit service to the extent permitted by applicable law.

**(e) Communications with Auditor**

The Audit Committee shall meet privately with the Auditor as frequently as the Audit Committee feels is appropriate for the Audit Committee to fulfil its responsibilities (which

shall not be less frequently than quarterly) to discuss any items of concern to the Audit Committee or the Auditor, such as:

- matters that will be referred to in the Auditor's management letter;
- whether or not the Auditor is satisfied with the quality and effectiveness of the financial recording procedures and systems;
- the extent to which the Auditor is satisfied with the nature and scope of the Auditor's examination.

**(f) Review of Audit Plan**

The Audit Committee shall review a summary of the Auditor's audit plan in advance for each audit.

**(g) Review of Audit Fees**

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

**(h) Review of Annual Audited Financial Statements**

The Audit Committee shall review the annual audited financial statements, together with the Auditor's report thereon, before recommending them for approval by the Board, to assess whether or not they present fairly in all material respects in accordance with GAAP the financial condition, results of operations and cash flows of the Company. The Audit Committee shall also review the MD&A relating to the annual audited financial statements and interim financial statements.

In conducting their review, the Audit Committee should:

- discuss the annual audited financial statements and MD&A with management and the Auditor;
- consider the quality of, and not just the acceptability of, the accounting principles applied, the reasonableness of management's judgments and estimates that have a significant effect upon the financial statements, and the clarity of the disclosures in the financial statements;
- discuss with the Auditor its report which addresses:
  - all critical accounting policies and practices to be used;
  - all alternative treatments of financial information within GAAP that have been discussed with management of the Company, ramifications of the use of

alternative disclosures and treatments, and the treatment preferred by the Auditors; and

- other material written communication between the Auditor and management of the Company, such as any management letter or schedule of unadjusted differences;
- discuss any analyses prepared by management and the Auditor that set out significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP;
- discuss the effect of off-balance sheet transactions, arrangements, obligations (including contingent liabilities) and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Company's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses;
- consider any changes in accounting practices or policies and their impact on financial statements of the Company;
- discuss with management, the Auditor and, if necessary, legal counsel, any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position of the Company, and the manner in which these matters have been disclosed in the financial statements;
- discuss with management and the Auditor correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies;
- discuss with the Auditor any special audit steps taken in light of any material weaknesses in internal control;
- discuss with the Auditor any difficulties encountered in the course of the audit work, including any restrictions on the scope of their procedures and access to requested information, accounting adjustments proposed by the Auditor that were not applied (because they were immaterial or otherwise), and significant disagreements with management;
- consider any other matter which in its judgment should be taken into account in reaching its recommendation to the Board concerning the approval of the financial statements;
- satisfy itself that appropriate accounting policies and practices have been selected and applied consistently; and
- satisfy itself that management has established appropriate procedures to comply with applicable legislation for the remittance of taxes, pension monies and employee remuneration.

**(i) Review of Interim Financial Statements**

The Audit Committee shall also engage the Auditor to review the interim financial statements prior to the Audit Committee's review of such financial statements. The Audit Committee should discuss the interim financial statements and related MD&A with management and the Auditor and, if satisfied that the interim financial statements present fairly in all material respects in accordance with GAAP the financial condition, results of operations and cash flows, approve the interim financial statements and review the related MD&A on behalf of the Board.

**(j) Other Financial Information**

The Audit Committee shall review any earnings releases, as well as the nature of any financial information and earnings guidance provided to analysts and rating agencies in accordance with the Company's disclosure policy. In addition, the Audit Committee shall satisfy itself that adequate procedures are in place for the review of the public disclosure of information extracted or derived from the Company's financial statements and must periodically assess the adequacy of those procedures.

**(k) Review of Prospectuses and Other Regulatory Filings**

The Audit Committee shall review all other financial statements of the Company that require approval by the Board before they are released to the public, including, without limitation, financial statements for use in prospectuses or other offering or public disclosure documents and financial statements required by regulatory authorities. The Audit Committee shall review the Annual Information Form of the Company prior to its filing.

**(l) Review of Related Party Transactions**

The Audit Committee shall review all material proposed related party transactions that are not dealt with by a "special committee" of "independent directors" pursuant to securities law rules.

**(m) Review of Internal Audit Function**

The Audit Committee shall review the mandate of the internal audit function, the budget, planned activities and organizational structure of the internal audit function to ensure that it is independent of management and has sufficient resources to carry out its mandate.

The members shall meet privately with the senior officer in charge of internal audit as frequently as the Audit Committee feels is appropriate for the Audit Committee to fulfil its responsibilities, which shall not be less frequently than quarterly, to discuss any areas of concern to the Audit Committee or to the senior officer in charge of internal audit to confirm that:

- significant resolved and any unresolved issues between auditors and management have been brought to its attention;

- the principal risks of the Company's businesses have been identified by management and appropriate policies and systems have been implemented to manage these risks; and
- the integrity of the Company's internal control and management information systems are satisfactory.

**(n) Relations with Management**

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

**(o) Oversight of Internal Controls and Disclosure Controls**

The Audit Committee shall review the adequacy of the internal controls that have been adopted to safeguard assets from loss and unauthorized use and ensure the accuracy of the financial records.

The Audit Committee shall review the effectiveness of the controls and procedures that have been adopted to ensure the disclosure of all material information about the Company and its subsidiaries that is required to be disclosed under applicable law or the rules of those exchanges on which securities of the Company are listed or quoted. The Audit Committee shall receive regular reports from the Company's Disclosure Committee with respect to the Company's system of disclosure controls and procedures. The Audit Committee shall also review no less than annually the Company's Disclosure Policy.

**(p) Legal Compliance**

The Audit Committee shall review with legal counsel any legal matters that may have a significant effect on the Company's financial statements. The Audit Committee should review with legal counsel material inquiries received from regulators and governmental agencies. The Audit Committee shall review with a representative of the Code of Conduct Committee any material matters arising from any known or suspected violation of the Company's Code of Conduct and any material concerns regarding questionable accounting or auditing matters raised through the Company's ethics response line.

**(q) Risk Management**

The Audit Committee shall meet periodically with management to discuss the Company's policies with respect to risk assessment and management.

**(r) Taxation Matters**

The Audit Committee shall review the status of taxation matters of the Company.

**(s) Hiring Policies**

The Audit Committee shall review and approve the Company's hiring policies regarding partners and professional employees of the present and former external auditor of the issuer.

**7. COMPLAINTS PROCEDURE**

The Audit Committee has adopted procedures for the receipt, retention and follow-up of complaints received by the Company regarding accounting, internal controls, disclosure controls or auditing matters and a procedure for the confidential, anonymous submission of concerns by employees of the Company regarding accounting, internal controls, or auditing matters. The Audit Committee shall monitor the effectiveness of these procedures.

**8. REPORTING**

The Audit Committee shall report to the Board on:

- the Auditor's independence;
- the performance of the Auditor and the Audit Committee's recommendations regarding the reappointment or termination of the Auditor;
- the performance of the internal audit function;
- the adequacy of the Company's internal controls and disclosure controls;
- the Audit Committee's review of the annual and interim financial statements of the Company and any GAAP reconciliation, including any issues with respect to the quality or integrity of the financial statements, and shall recommend whether or not the Board should approve the financial statements and any GAAP reconciliation;
- the Audit Committee's review of the annual and interim MD&A;
- the Audit Committee's review of the Annual Information Form;
- the Company's compliance with legal and regulatory matters to the extent they affect the financial statements of the Company; and
- all other material matters dealt with by the Audit Committee.

**9. REVIEW AND DISCLOSURE**

This Charter should be reviewed by the Audit Committee at least annually and be submitted to the Governance, Human Resource, Nominating and Compensation Committee for consideration with such amendments as the Audit Committee proposes and for recommendation to the Board for approval with such further amendments as the Governance, Human Resource, Nominating and Compensation Committee proposes.

This Charter may also be posted on the Company's Web site.

**10. FREQUENCY OF MEETINGS**

The Audit Committee shall meet at least five times annually.

**11. RETENTION OF EXPERTS**

The Audit Committee may engage such special legal, accounting or other experts, without Board approval and at the expense of the Company, as it considers necessary to perform its duties.