



**2008**

**ANNUAL INFORMATION FORM**

**March 23, 2009**

**GEORGE WESTON LIMITED  
2008 ANNUAL INFORMATION FORM  
TABLE OF CONTENTS**

<b>I.</b>	<b>FORWARD - LOOKING STATEMENTS .....</b>	<b>3</b>
<b>II.</b>	<b>CORPORATE STRUCTURE .....</b>	<b>4</b>
	Incorporation .....	4
	Intercorporate Relationships .....	4
<b>III.</b>	<b>GENERAL DEVELOPMENT OF THE BUSINESS .....</b>	<b>5</b>
	Overview .....	5
	<b>Weston Foods .....</b>	<b>5</b>
	Dispositions .....	6
	Capital Investment .....	6
	Restructuring Activities .....	6
	<b>Loblaws .....</b>	<b>8</b>
	Multi-Year Turnaround Plan .....	8
	Supply Chain .....	9
	Labour and Employment Matters .....	9
	Financial Performance .....	10
	Products and Services .....	10
	Control Label Program .....	11
	Financial Services .....	12
<b>IV.</b>	<b>DESCRIPTION OF THE BUSINESS .....</b>	<b>12</b>
	<b>Weston Foods .....</b>	<b>12</b>
	Principal Products .....	12
	Production Facilities .....	13
	Distribution to Consumers .....	13
	Competitive Conditions .....	13
	Brands .....	14
	Raw Materials .....	14
	Intellectual Property .....	14
	Seasonality .....	14
	Labour and Employment Matters .....	14
	Environmental and Health and Safety Matters .....	15
	Food Safety, Public Health and Labelling .....	15
	Research and Development and New Products .....	16
	Foreign Operations .....	16
	<b>Loblaws .....</b>	<b>16</b>
	Operations .....	16
	Competitive Conditions .....	18
	Customers .....	19
	Products and Services .....	19
	Intellectual Property .....	21
	Information Technology .....	21
	Supply Chain .....	22
	Seasonality .....	22
	Foreign Operations .....	22
	Colleagues .....	22

Lending .....	23
Environmental and Health and Safety Matters .....	23
Corporate Social Responsibility .....	23
Food Safety, Public Health and Labelling .....	24
<b>V. PRIVACY AND ETHICS .....</b>	<b>24</b>
<b>VI. OPERATING AND FINANCIAL RISKS AND RISK MANAGEMENT .....</b>	<b>24</b>
<b>VII. SHARE CAPITAL AND MARKET FOR SECURITIES .....</b>	<b>25</b>
Share Capital.....	25
Trading Price and Volume.....	27
Credit Ratings .....	29
<b>VIII. DIVIDENDS.....</b>	<b>32</b>
<b>IX. DIRECTORS AND OFFICERS.....</b>	<b>34</b>
Directors .....	34
Officers .....	35
<b>X. LEGAL PROCEEDINGS.....</b>	<b>36</b>
<b>XI. MATERIAL CONTRACTS .....</b>	<b>36</b>
<b>XII. RELATED PARTY TRANSACTIONS .....</b>	<b>37</b>
<b>XIII. TRANSFER AGENTS AND REGISTRARS.....</b>	<b>37</b>
<b>XIV. EXPERTS.....</b>	<b>37</b>
<b>XV. AUDIT COMMITTEE INFORMATION.....</b>	<b>37</b>
<b>XVI. EXTERNAL AUDIT FEES .....</b>	<b>38</b>
<b>XVII. ADDITIONAL INFORMATION.....</b>	<b>38</b>

**APPENDIX A – AUDIT COMMITTEE CHARTER**

## I. FORWARD - LOOKING STATEMENTS

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

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the possibility that the Company’s plans and objectives will not be achieved. These risks and uncertainties include, but are not limited to: changes in economic conditions; changes in consumer spending and preferences; heightened competition, whether from new competitors or current competitors; the availability and cost of raw materials and ingredients, fuels and utilities; changes in the Company’s or its competitors’ pricing strategies; failure of the Company’s franchised stores to perform as expected; risks associated with the terms and conditions of financing programs offered to the Company’s franchisees; failure to realize sales growth, anticipated cost savings or operating efficiencies from the Company’s major initiatives, including investments in the Company’s information technology systems, supply chain investments and other cost reduction and simplification initiatives; the inability of the Company’s information technology infrastructure to support the requirements of the Company’s business; the inability of the Company to manage inventory to minimize the impact of obsolete or excess issues and to control shrink; failure to execute successfully and in a timely manner the Company’s major initiatives, including the implementation of strategies and introduction of innovative and reformulated products; unanticipated results associated with the Company’s strategic initiatives, including the impact of acquisitions or dispositions of businesses on the Company’s future revenues and earnings; the inability of the Company’s supply chain to service the needs of the Company’s stores; deterioration in the Company’s relationship with its employees, particularly through periods of change in the Company’s business; failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements which could lead to work stoppages; changes to the regulatory environment in which the Company operates; the adoption of new accounting standards and changes in the Company’s use of accounting estimates including in relation to inventory valuation; fluctuations in the Company’s earnings due to changes in the value of stock-based compensation and equity derivative contracts relating to GWL and Loblaw Company Limited common shares; changes in the Company’s tax liabilities resulting from changes in tax laws or future assessments; detrimental reliance on the performance of third-party service providers; public health events; the inability of the Company to obtain external financing; changes in interest and currency exchange rates; the inability of the Company to collect on its credit card receivables; any requirement of the Company to make contributions to its funded defined benefit pension plans in excess of those currently contemplated; the inability of the Company to attract and retain key executives; and supply and quality control issues with vendors. These and other risks and uncertainties are discussed in the Company’s materials filed with the Canadian securities regulatory authorities from time to time, including the Enterprise Risks and Risk Management section of the MD&A included in GWL’s 2008 Annual Report and its 2008 Quarterly Reports. These forward-looking statements reflect management’s current assumptions regarding these risks and uncertainties and their respective impact on the Company.

Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company’s expectations only as of the date of this Annual Information Form. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

The information in this Annual Information Form is current to March 23, 2009, unless otherwise noted. All information regarding Loblaw Companies Limited contained herein has been derived from the public disclosure record of Loblaw Companies Limited. All amounts are in Canadian dollars.

## II. CORPORATE STRUCTURE

### Incorporation

George Weston Limited 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 is a holding company and operates through its subsidiaries in the Weston Foods and Loblaw reportable operating segments. Weston Foods is operated in Canada by Weston Foods (Canada) Inc. and its subsidiaries and in the United States by Weston Foods US, Inc. and its subsidiaries. The Loblaw segment is operated by Loblaw Companies Limited (“Loblaw Companies”), a public company in which the Company, directly and indirectly, holds a 62% interest. Loblaw Companies operates the Loblaw segment across Canada through directly and indirectly owned subsidiaries (Loblaw Companies and its subsidiaries are collectively referred to as “Loblaw”).

A list of subsidiaries of the Company 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 the Company, except in the case of Loblaw Companies, in which 62% of the voting shares are held directly and indirectly by the Company.

#### Weston Foods Subsidiaries

Boulangerie Gadoua Ltée.  
Boulangeries Weston Québec Limitée  
Dicoa Holdings Limited  
Dicoa Investments Limited  
Dunedin Holdings S.à r.l.  
Interbake Foods LLC  
Maplehurst Bakeries, LLC  
Ready Bake Foods Inc.  
Weston Bakeries Limited/Boulangeries Weston Limitée  
Weston Foods US, Inc.  
Weston Foods (Canada) Inc.  
Weston Food Distribution Inc.

#### Jurisdiction of Incorporation

Quebec  
Ontario  
Gibraltar  
Gibraltar  
Luxembourg  
Delaware  
Indiana  
Ontario  
Canada  
Delaware  
Ontario  
Canada

#### Loblaw Subsidiaries

Atlantic Wholesalers Ltd.  
Fortinos Supermarket Ltd.  
Glenhuron Bank Limited  
Kelly, Douglas & Company, Limited  
Loblaw Alberta Inc.  
Loblaw Brands Limited  
Loblaw Companies Limited  
Loblaw Properties Limited  
Loblaw Properties West Inc.  
Loblaws Inc.  
Loblaw Supermarkets Limited  
National Grocers Co. Ltd.

#### Jurisdiction of Incorporation

New Brunswick  
Ontario  
Barbados  
British Columbia  
Alberta  
Canada  
Canada  
Ontario  
Canada  
Ontario  
Ontario  
Ontario

## Loblaw Subsidiaries Cont'd

PGV Acquisition Inc.	Quebec
President's Choice Bank	Canada
Provigo Distribution Inc.	Quebec
Provigo Properties Limited	Canada
Provigo Quebec Inc.	Quebec
Westfair Foods Ltd.	Ontario
Zehrmart Inc.	Ontario

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

#### Overview

GWL is a Canadian public company, founded in 1882, engaged in food processing and distribution. The Company has two reportable operating segments, Loblaw and Weston Foods, and holds cash and short-term investments. The Loblaw operating segment is Canada's largest food distributor and a leading provider of general merchandise, drugstore, and financial products and services. The Weston Foods operating segment is a leading fresh and frozen baking company in Canada and is engaged in frozen baking and biscuit manufacturing in the United States.

#### Weston Foods

Weston Foods is focused predominantly on the Canadian baking industry with operations in the United States in the frozen bakery business, as well as specialty products including biscuits, cookies, wafers and cones. Baking industry conditions have changed significantly over the past several years and the Company's North American baking operations have faced a challenging marketplace impacted by changing demographic and economic trends of consumers, such as changes in disposable income, ethnic diversity, health and environmental awareness and time availability. Changing consumer eating preferences, including a focus on health and diet, challenge Weston Foods sales growth of certain traditional products, primarily white bread. In addition, consumer shopping patterns continue to shift toward alternate format retail channels over traditional, conventional supermarket formats. Weston Foods has penetrated these alternate channels while retaining its strong position in conventional supermarket formats.

In recent years, the baking industry has been impacted by an unprecedented rise in commodity and other input prices, particularly for wheat, oils and fuel. Weston Foods has responded with higher prices, increased focus on cost reduction initiatives and further innovation of product offerings. In 2008, Weston Foods achieved sales price increases across many of its product categories. These increases helped to partially mitigate the impact of the continued cost inflation. In general, the pricing increases by Weston Foods reflected pricing trends experienced across the baking industry.

In recent years, Weston Foods has focused on:

- sales growth in the whole grain, whole wheat and higher priced premium product categories;
- the development and introduction of new and expanded convenience and health-related product offerings including enhanced whole grain and whole wheat offerings as well as Omega-3, no cholesterol, reduced fat and no trans fat products;

- penetrating new sales channels, particularly with alternate format retail channels;
- increasing investment behind its brands;
- investing capital to support growth; and
- cost improvements to ensure a low cost operating structure.

### Dispositions

As part of its commitment to creating shareholder value, the Company remains open to opportunities that enable it to realize upon the value of its assets. As a result of opportunities arising in 2008, the Company completed the following two dispositions:

#### *Sale of Neilson Dairy*

On December 1, 2008, the Company completed the sale of its Canadian dairy and bottling operations to Saputo Inc. for proceeds of \$467 million, with a pre-tax gain of \$335 million (\$281 million, net of tax). Prior to the closing, Loblaw entered into a long-term supply agreement with the dairy and bottling operations.

#### *Sale of US Fresh Bakery Business*

Dunedin Holdings S.à r.l., a subsidiary of the Company, announced on December 10, 2008, an agreement to sell its US fresh bakery business to Grupo Bimbo, S.A.B. de C.V. for gross and net proceeds of approximately US\$2.5 billion, including approximately US\$125 million of interest bearing assets. The sale transaction was completed on January 21, 2009.

Following these dispositions, Weston Foods holds a significant amount of cash and short-term investments and is in the process of assessing opportunities for the deployment of these funds. Weston Foods continuing operations consist of a fresh and frozen bakery business in Canada (Weston Foods Canada), a frozen bakery operation in the United States (Maplehurst Bakeries) and a biscuit, cookie, cone and wafer business in the United States (Interbake Foods).

### Capital Investment

Capital investments over the past three years 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 capital investments and acquisitions have taken place in targeted areas.

During 2008, Weston Foods began construction of a new bakery manufacturing facility in Winnipeg. This facility is expected to begin production in the second quarter of 2009.

During 2008, Weston Foods purchased a frozen bakery manufacturing facility in Ontario, Canada for \$10 million.

During 2005, Weston Foods began construction of a new biscuit facility in Front Royal, Virginia, which commenced operations in 2006. This facility primarily produces wafers and cookies.

### Restructuring Activities

Significant restructuring of the Company's baking assets has been carried out in the past three years. Restructuring and rationalization activity has been taking place across the industry. Weston Foods continues to evaluate strategic and cost reduction initiatives related to its manufacturing assets,

distribution networks and operational restructuring with the objective of ensuring a low cost operating structure and economies of scale. Certain of these initiatives are in progress or nearing completion while others remain in the planning stages.

#### *Manufacturing Asset Restructuring*

During 2008, Weston Foods approved a plan to restructure its Western Canada fresh manufacturing network, which will result in the closure of two manufacturing facilities and a move into a new facility. This restructuring is expected to be completed by the end of 2009.

During 2008, Weston Foods approved a plan to close a fresh manufacturing facility in Quebec and consolidate its production with other existing manufacturing facilities. This restructuring was substantially completed by the end of 2008.

During 2008, Weston Foods approved a plan to close a fresh bakery manufacturing facility in Ontario. This restructuring was substantially completed by the end of 2008.

During 2006, Weston Foods approved a plan to close a frozen bagel plant in Nebraska. This closure was completed in 2006. During 2007, Weston Foods completed the sale of this facility.

During 2006, Weston Foods approved the closure of an ice-cream cone baking facility in Los Angeles, California, and transferred the production to other existing Weston Foods facilities. This restructuring was completed in 2007, including the sale of the manufacturing facility.

During 2005, Weston Foods approved a plan to restructure its United States biscuit operations. This plan included 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 already operating in South Dakota. The sale of these two facilities was completed in 2005. All manufacturing activities ceased in these facilities by the end of 2006. During 2007, Weston Foods vacated the Elizabeth, New Jersey, facility in accordance with the terms and conditions of the sale lease-back arrangement.

#### *Distribution Network Restructuring*

During 2006, Weston Foods approved a plan to restructure a portion of its distribution network in Quebec. This restructuring was substantially completed by the end of 2008.

During 2007, Weston Foods approved plan to restructure its Ontario frozen bakery distribution operations and to further restructure its Quebec fresh bakery distribution operations and to restructure the dairy distribution network. This restructuring was substantially completed by the end of 2008.

#### *Operational Restructuring*

During 2008, Weston Foods approved a plan to restructure the operating structure of the Canadian bakery business. The plan involves segregating certain functional departments between the fresh and frozen bakery businesses and centralizing of other functions.

Further information on trends affecting Weston Foods and Weston Foods strategies and financial performance can be found in the Management's Discussion and Analysis section of the Company's 2008 Annual Report ("MD&A"). This information is incorporated by reference and is available at [www.sedar.com](http://www.sedar.com).

## **Loblaw**

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

### **Multi-Year Turnaround Plan**

Loblaw is currently executing a three to five-year turnaround plan and is in the third year of the plan. In 2006, there was a significant change in senior leadership, following which the management team commenced a review of Loblaw's operations which focused on key drivers of the business such as fresh food presentation, maximizing employee engagement, the performance of retailing basics and customer satisfaction.

New management then embarked on an initiative to Make Loblaw the Best Again, based on the principles of "Simplify, Innovate and Grow" and a Formula for Growth focused on the key strategies of Best Format; Fresh First; Control Label Advantage; 10% Joe; Health, Home and Wholesome; Priced Right; Always Available; and Friendly Colleagues Motivated to Serve.

Project Simplify, which was executed during 2007, was undertaken to simplify the organization by more clearly defining accountabilities, eliminating duplication and establishing consistent, simple and efficient processes. Regional food merchandising and replenishment functions were centralized to improve Loblaw's buying scale and create consistent and more effective category management processes. Store operations functions were aligned across all regions to enhance the customer experience. Support functions, such as Marketing, Finance, and Human Resources, were redesigned for effectiveness and efficiency. The changes resulted in a total reduction of approximately 900 employees from Loblaw during the year. Loblaw is continuing to build tools, processes and capabilities to maximize the benefits of Project Simplify, while also reducing complexity, focusing on stability and improving execution at stores, distribution centres and store support centres.

Loblaw has embarked on an initiative to fix the basics of its business, a critical part of its strategy to be known once again as one of the world's best retailers. A major component of this strategy is to have a world-class supply chain, ensure shelf availability, reduce shrink and improve store productivity. Loblaw also implemented a strategy to lower retail prices to deliver excellent value to customers and to ensure they recognize the benefit of lower prices in its stores where it matters. 2007 was a year of targeted price reductions in many areas of the country. Loblaw remains committed to adjusting prices to bring value to its customers and maintain its competitiveness.

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

Loblaw also made good progress in all facets of its five-point plan to drive profitable sales momentum. The five-point plan includes focus on a "Back-to-Best" great food renewal in Ontario, a Western Canada refurbishment, local market merchandising, improvements in foundational infrastructure and private label innovation.

Several key management changes were made in 2008 with the appointment of a new President, Chief Merchandising Officer and Chief Financial Officer. Loblaw also streamlined its reporting structure in addition to further clarifying roles and accountabilities.

In 2009, Loblaw will continue its efforts to simplify and sharpen its operations, continue to fix the basics that matter to customers, restore innovation to the heart of its culture in food and across all its control label products and grow Loblaw through the Formula for Growth while carefully managing cash in an uncertain economic environment.

While the changes described above are expected to bring benefits to Loblaw in the form of a more agile and consumer-focused business, success is dependent on management effectively implementing these changes and realizing the intended benefits. Ineffective change management may result in disruptions to the operations of the business or adversely affect the ability of Loblaw to implement and achieve its strategic objectives, due to a lack of clear accountabilities, or cause employees to act in a manner which is inconsistent with its objectives. Any of these events could negatively impact Loblaw's performance. Loblaw may not always achieve the expected cost savings and other benefits of its initiatives.

### Supply Chain

Beginning in 2005, and throughout 2006, Loblaw undertook to restructure its supply chain in an effort to create a national logistics platform. Challenges were experienced with conversions to new systems and this had a negative effect on store service levels for general merchandise products and drugstore. In addition, Loblaw encountered challenges with the start-up of a new third-party owned and operated warehouse and distribution centre for eastern Canada which handles general merchandise and certain drugstore products, primarily health and beauty care products.

In late 2006 and 2007, the new management team continued to focus on supply chain improvement. In 2007, Loblaw launched a significant initiative to invest in and improve its supply chain. This initiative includes upgrading the physical distribution network, increasing capacity, and the implementation of new forecasting, replenishment, distribution and transportation capabilities that over time will improve in-store availability and operational productivity.

In 2008, four new distribution centres were opened, other distribution centres were reconfigured and availability and service levels consistently improved. In 2009, Loblaw plans to focus on cost control in its distribution system, improving labour productivity and continuing the physical upgrade to the distribution centre network and transportation systems.

Although these initiatives are expected to result in improved service levels for Loblaw's stores, the scale of the change and the implementation of new processes could cause disruption in the flow of goods to stores, which would negatively affect sales.

### Labour and Employment Matters

Loblaw's workforce is significantly unionized and as such lacks some of the flexibility of its competitors in areas such as cost control and responsiveness. Loblaw's relationship with its unions has been satisfactory in the past three years and has been characterized by honest and open discussions regarding the need for change if Loblaw is to be competitive in the long term.

In the past three years, 207 collective agreements were successfully negotiated, including a new four-year collective agreement in 2006 with members of some Ontario locals of the United Food and Commercial Workers union. The agreement enables Loblaw to convert 44 stores in Ontario to the RCSS banner or

food stores with equivalent labour economics and the flexibility to invest in additional store labour where appropriate. Significant labour negotiations took place across Loblaw in 2008 as 75 collective agreements expired and 75 collective agreements were successfully negotiated, which represented a combination of agreements expiring in 2008, those carried over from prior years, and those negotiated early. The 2008 labour negotiations were challenging and resulted in strikes at 14 stores, one in British Columbia and 13 in Quebec. Strikes affecting the majority of the stores have been resolved. In 2009, 60 collective agreements affecting approximately 19,000 colleagues will expire, with the single largest agreement covering approximately 8,500 colleagues. Loblaw will also continue to negotiate the 49 collective agreements carried over from 2006, 2007 and 2008.

Although possible, Loblaw does not anticipate any unusual difficulties in renegotiating collective agreements. Renegotiating collective agreements might result in work stoppages or slowdowns, which could negatively affect Loblaw's financial performance, depending on their nature and duration. Loblaw is willing to accept the short-term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term.

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

In 2009, Loblaw's Human Resources function will build on programs designed to make Loblaw "A Great Place to Work", including the launch of a national orientation plan and a service award program. In view of the high costs associated with colleague turnover, Loblaw will focus on the development of key programs that will drive colleague retention which will in turn improve Loblaw's ability to execute its strategies, efficiently run operations and meet its goals for financial performance.

The degree to which Loblaw is not effective in developing its colleagues (particularly senior colleagues) and establishing appropriate succession planning processes and retention strategies could lead to a lack of requisite knowledge, skills and experience which could in turn affect Loblaw's ability to execute its strategies, efficiently run its operations and meet its goals for financial performance. Loblaw continues to focus on the development of colleagues at all levels and across all regions. Effective colleague development and succession planning are essential to the growth and success of Loblaw. However, these areas are not yet fully developed.

### Financial Performance

Information on Loblaw's financial performance can be found in the Management's Discussion and Analysis section of Loblaw's 2008 Annual Report ("Loblaw MD&A"). This information is incorporated by reference and is available at [www.sedar.com](http://www.sedar.com).

### Products and Services

Loblaw is Canada's largest food distributor and a leading provider of drugstore, general merchandise, and financial products and services. Traditional food offerings remain at the core of Loblaw's business. Loblaw primarily offers four distinct store formats: Superstore, Great Food, Hard Discount and Wholesale.

Go-to-market strategies have been developed for each format based on customer shopping preferences, competitive considerations, and market opportunities. In 2008, programs took place in each of the three main formats. Great Food stores were enhanced by the “Back to Best” program in the Greater Toronto Area which included innovations to our meat, seafood and produce offerings, as well as improved colleague engagement and service. Eleven Superstores were renovated in 2008 to optimize layout and improve shopping experience. Twelve *no frills* stores opened in western Canada. Similar activities will continue through 2009.

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

### Control Label Program

Loblaw offers a strong and innovative control label program for both food and everyday household needs. This program helps to create customer loyalty and ensure price competitiveness. Over the past three years, Loblaw has continued to add products to its control label program in the food, health and beauty, apparel and general merchandise categories. In support of these products in 2008, Loblaw distributed four issues of the *Insider’s Report* that reached millions of homes across Canada. This included a *PC Healthy Insider’s Report*. Loblaw also issued a *PC Home Look Book* that featured over 61 items for the home including products for the kitchen, bed and bath, and home décor.

Loblaw has been a leader in the offering of health-oriented control label products. Loblaw offers a range of certified organic products and now has over 200 of those products under the *PC Organics* label. Early in 2005, Loblaw introduced its *Blue Menu* line of products for health and nutrition conscious consumers and now offers over 300 such products.

In 2006, the *Joe Fresh Style* brand of adult apparel was launched in 40 stores with positive customer response. By the end of 2006, *Joe Fresh Style* apparel was in approximately 100 stores in all regions of the country. To facilitate this launch, Loblaw redesigned the *Joe Fresh Style* shopping environment with wide aisles, a central cash desk and fitting rooms. New fixtures and a signing program were also introduced. In 2007, Loblaw expanded the *Joe Fresh Style* brand and launched children’s wear, intimates and accessories. In 2008, Loblaw continued to add square footage of selling space for *Joe Fresh Style* and expanded its distribution in Quebec and Atlantic Canada.

In 2008, Loblaw launched more than 500 new *President’s Choice* products, celebrated the 25<sup>th</sup> anniversary of the *Holiday Insider’s Report* and redesigned packaging for 350 *President’s Choice* products. Loblaw also began to prepare for the celebration of the 25<sup>th</sup> anniversary of *President’s Choice*, which will take place in 2009.

Loblaw is also focused on its growing line of *PC Home* branded houseware products. In 2008, a new *PC Home* merchandising concept was piloted in the superstore format.

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

Loblaw's control label products, which are among the most recognized brands in Canada, are manufactured under contract by third-party vendors. In order to preserve the brands' equity, these vendors are held to high standards of quality. While appropriate contractual arrangements are put in place with these third parties, Loblaw has no direct influence over how such third parties are managed. It is possible that negative events affecting these third parties could in turn negatively impact Loblaw's operations and its financial performance.

#### Financial Services

*President's Choice Financial* services, including chequing and savings accounts, mortgages, RRSPs, mutual funds, loans and lines of credit, are provided by the direct banking division or a wholly-owned subsidiary of a major Canadian chartered bank. *President's Choice Bank*, a subsidiary of Loblaw, offers the *President's Choice Financial MasterCard®*.

Loblaw currently offers *PC Financial* pet and travel insurance through its subsidiary, *PC Financial Insurance Agency Inc.* *PC Financial* pet insurance is currently available in each province and territory except for Quebec and New Brunswick. *PC Financial* travel insurance is currently available in all provinces and territories except for Quebec. *PC Financial* Insurance ceased soliciting for new home and automobile insurance business effective February 21, 2009; however, it will continue to provide customer service (including claims service) and renewal policies to existing customers.

Further information on trends affecting Loblaw and Loblaw's strategies can be found in the Loblaw MD&A, which is incorporated by reference.

### **IV. DESCRIPTION OF THE BUSINESS**

#### Weston Foods

Weston Foods is a significant participant in the North American baking industry.

#### Principal Products

Weston Foods produces a variety of fresh, frozen (raw dough, pre-proofed, par-baked, pre-fried and fully baked) and specialty bakery products including breads, dough, rolls, bagels, tortillas, doughnuts, cakes, pies, crackers and other baked goods. 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 operates in a challenging marketplace, impacted by consumers' demands for healthy and nutritious products. Weston Foods has been proactive in meeting these demands by developing a range of healthy lifestyle products such as whole grain and wheat offerings, portion controlled servings and products containing Omega-3. Additionally, new product offerings from Weston Foods have focused on providing healthier alternatives to mainstream brands including *Wonder+ Headstart*, *Country Harvest Plus* and *Gadoua Vitalité*.

### Production Facilities

Weston Foods has developed from one small bakery in 1882 to the current network of production facilities located predominately in Canada. As at March 23, 2009, production facilities for Weston Foods were 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	11	Washington	1
Quebec	7	South Dakota	1
Alberta	4	Wisconsin	1
Saskatchewan	3	Indiana	1
Nova Scotia	2	Georgia	1
British Columbia	2	Virginia	1
Manitoba	1	Pennsylvania	1
Newfoundland and Labrador	1		
<b>Total</b>	<b>31</b>		<b>7</b>

### Distribution to Consumers

Weston Foods sells its products through a variety of customer channels within the North American food retailing market including many national and regional supermarkets, 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 to building and maintaining consumer brand awareness.

Weston Foods distributes most of its fresh bakery products through direct store delivery route systems. Frozen and other specialty bakery products are distributed primarily through warehouse channels using a combination of owned and outsourced fleet facilities. Weston Foods continues to explore opportunities to create distribution efficiencies, including the use of cross-docking facilities and the optimization of its depot and route networks.

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 \$911 million and \$865 million, respectively.

### 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 modify their operating strategies, including restructuring production facilities, reviewing prices and adjusting product offerings to reflect consumer trends, including those related to health or nutritional concerns, and repositioning brands and marketing programs to take into account competitive activity. Based on the opportunity and current industry conditions, the Company decided to exit the US fresh bakery business.

Weston Foods anticipates that competitive business restructuring by its competitors will continue to take place in 2009. Although the outcome and the impact, if any, on the Company's consolidated financial results from the potential restructuring activity is uncertain, Weston Foods will closely monitor the retail food market and, if required, adjust its strategies and programs as necessary.

## Brands

Over recent years, Weston Foods has increased investment behind its brands, continued to introduce new products geared towards changing consumer eating preferences, and invested capital to support growth and enhance quality and productivity.

Weston Foods' brands provide it with a strategic advantage over its competitors. Its premium and mainstream brands, including *Wonder* (in Canada), *Country Harvest*, *D'Italiano*, *Gadoua*, and *Weston*, provide Weston Foods with strong core brands and product lines that enhance consumer loyalty, trusted as they are for quality, great taste and freshness. Weston Foods' brand strength and diversity are vital to its long-term growth. Weston Foods aims to expand its brands by leveraging its brand equity and trust to meet consumer's ever-changing needs, and provide a point of differentiation and credibility for new product introductions.

## Raw Materials

Wheat, flour, sugar, vegetable oil, and cocoa are the primary ingredients for bakery products. These ingredients are readily available in sufficient quantities as there are numerous sources of supply for these ingredients. To minimize the effect of fluctuations in the prices of its important raw materials, forward contracts with suppliers, or other contracts such as exchange traded commodity futures contracts, are used to partially hedge the cost of anticipated purchases of certain raw materials. Nonetheless, the prices of these items are subject to fluctuations.

## 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. Trade-marks 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. The trade-marks of the Company and its subsidiaries when used in this Annual Information Form are presented in *italics*.

Key brand names used by Weston Foods include *Wonder*, *Wonder+*, *Country Harvest*, *D'Italiano*, *Gadoua* and *Weston*. Weston Foods has agreements with Weight Watchers® International in Canada with respect to the manufacturing, sale and distribution of baked products under its brands. Also, Weston Foods has agreements with Grupo Bimbo in Canada with respect to the manufacturing, sale and distribution of baked products under the Thomas'®, Oroweat®, Brownberry® and Entenmann's® brands.

## Seasonality

The Company's operations as they relate to food, specifically inventory levels, sales volumes and sales mix, are impacted to some degree by certain holiday periods throughout the year. Weston Foods continuously monitors the impact that holidays may have on its operations and adjusts inventory levels and production and delivery schedules as required.

## Labour and Employment Matters

Weston Foods has approximately 6,000 full and part-time employees in the bakery operations, many of whom 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.

Renegotiating collective agreements may result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. The Company is willing to accept the short-term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term.

Weston Foods has good relations with its employees and unions and, although it is possible, does not anticipate any unusual difficulties in renegotiating these agreements.

#### 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 legislative requirements. To this end, Weston Foods employs environmental risk assessments and audits using internal and external resources together with employee awareness programs throughout its operating locations. Weston Foods endeavors 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.

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

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

#### Food Safety, Public Health 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 products and, with respect to Weston Foods contract manufactured products, in relation to the production, packaging and design of products. Any significant failure or disruption of these systems could negatively affect Weston Foods' reputation and its financial performance.

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 are aimed at ensuring that potentially harmful products are expeditiously removed from inventory. In addition, Weston Foods' 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 also actively supports consumer awareness of safe food handling and consumption. The ability of these procedures to address such events is dependent on their successful execution. The existence of these procedures does not mean that Weston Foods will in all circumstances be able mitigate these risks.

Weston Foods strives to ensure its brands meet all applicable regulatory requirements, including having informative nutritional labelling so that today's health conscious consumer can make informed choices.

#### 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 (i.e. Weight Watchers® and Grupo Bimbo) to leverage off each other's expertise or brands.

In 2008, Weston Foods introduced new products including *D'Italiano Thintini*, *Gadoua Vitalité*, *Wonder+ Headstart* and *Country Harvest Plus*.

In 2007, Weston Foods Canada introduced a number of innovative bakery products into the Canadian marketplace. These products included expanding the *Wonder+* brand to all bread products (white and 100% whole wheat), hot dog and hamburger buns, English muffins and *Wrapz* (tortillas). The *D'Italiano* line of products was expanded to include 100% whole wheat crustini and sausage rolls and fresh garlic bread. All *Country Harvest* breads were reformulated to reduce total sodium by 25%. *Gadoua* introduced four new "soft grain" breads into the Quebec Marketplace. The *Weight Watchers*® line up was expanded to include additional offerings of tortillas, bagels and English muffins.

In 2006, Weston Foods focused on the development of healthier, better-for-you products which still taste great by focusing on the global trends of whole grains and whole wheat, Omega-3 and fibre. Weston Foods improved *Country Harvest* bagels such that they are made with 100% whole grain and a source of Omega-3 to compliment the *Country Harvest* bread line introduced in 2005. In Canada, the Company launched *Wonder+* and *Weston Moelleux Plus* which offer the same great taste with the goodness of whole wheat, with the goal of expanding its reach to children.

#### Foreign Operations

Weston Foods production facilities are located across Canada and in the United States. Any significant economic or competitive pressures, including currency fluctuations in the United States dollar relative to the Canadian dollar, may impact consolidated Weston Foods results. The Company has several wholly-owned foreign subsidiaries that hold certain assets of the Company, including operating assets in the United States.

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

#### **Loblaw**

##### Operations

Loblaw is Canada's largest food distributor and a leading provider of drugstore, general merchandise, and financial products and services. Loblaw's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices. For over 50 years, Loblaw has supplied the Canadian market with innovative products and services through corporate, franchised and associated stores. Loblaw primarily offers four distinct store formats: Superstore, Great Food, Hard Discount and Wholesale. Corporate owned store banners include *Atlantic Superstore*, *Dominion*\* (in Newfoundland and Labrador), *Extra Foods*, *Loblaws*, *Loblaw Great Food*, *Maxi*, *Maxi & Cie*, *Provigo*, *The Real Canadian Superstore*, *Loblaw Superstore* and *Zehrs* and 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*, *Extra Foods*, *no frills*, *SuperValu*, *Valu-mart* and

*Your Independent Grocer.* The store network is supported by 21 Company operated and five third-party warehouse facilities located across Canada, as well as temporary storage facilities when required.

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, travel and pet insurance, *PC Mobile* phone service, as well as a loyalty program known as *PC* points.

\* Trademark used under license

### Geographic and Banner Summary

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

	Corporate Stores	Franchised Stores	Associated Stores	Independent Accounts	Warehouses
Newfoundland and Labrador	13	7	4	202	1
Prince Edward Island	4	3	1	82	
Nova Scotia	34	21		494	2
New Brunswick	21	20	4	233	2
Quebec	223	21	283	3,609	4
Ontario	155	277	11	72	5
Manitoba	25	5	27		1
Saskatchewan	33	16	21		1
Alberta	60	14	9		3
Northwest Territories	2		1		
Yukon	1	1			
British Columbia	38	42	17		2
<b>Total</b>	<b>609</b>	<b>427</b>	<b>378</b>	<b>4,692</b>	<b>21</b>

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

	Corporate Stores	Franchised Stores	Associated Stores
<b>Superstore</b>			
Atlantic Superstore	53		
Dominion* (in Newfoundland and Labrador)	12		
The Real Canadian Superstore	107		
<b>Great Food</b>			
Atlantic SaveEasy		44	5
Fortinos		20	
Loblaws	79		
Provigo	64	21	3
SuperValu	2	14	7
Valu-mart		56	9
Your Independent Grocer		53	1
Zehrs	44		
Other	2	34	244
<b>Hard Discount</b>			
Extra Foods	68	25	
Maxi	93		
Maxi & Cie	17		
No Frills		160	
<b>Wholesale</b>			
Cash & Carry	22		109
Presto	12		
The Real Canadian Wholesale Club	34		
<b>Total</b>	<b>609</b>	<b>427</b>	<b>378</b>

\* Trademark used under license

The average store size at year end 2008 for corporate stores and franchised stores was 61,900 and 28,400 square feet, respectively. The average store size for both corporate stores and franchised stores has

increased by 3.4% and 1.6% respectively over the last three years as Loblaw has generally moved to larger store formats.

Whenever practical, Loblaw follows a strategy of purchasing land for future store locations. At year end 2008, Loblaw owned 74% of the real estate on which its corporate stores are located, 48% of the real estate on which its franchised stores are located, as well as various properties under development or held for future development. Loblaw's owned properties are essentially unencumbered, with only \$10 million in mortgage debt on total fixed assets including real estate, having a net book value of approximately \$8.0 billion at year end 2008. The total square footage of the owned corporate and franchise stores is approximately 27.4 million square feet and 6.0 million square feet, respectively.

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

Franchisees are independent businesses and, as a result, their operations may be negatively affected by factors beyond Loblaw's control which in turn may damage Loblaw's reputation and potentially affect revenues and earnings. Revenues and earnings would also be negatively affected and Loblaw's reputation could be harmed if a significant number of franchisees were to: experience operational failures, including health and safety exposures; experience financial difficulty; or be unwilling or unable to pay Loblaw for products, rent or other fees. Loblaw's franchise system is also subject to franchise laws and regulations enacted by a number of provinces. Any new legislation or failure to comply with existing legislation may negatively affect operations, and could add administrative costs and burdens associated with these regulations, all of which could affect Loblaw's relationship with its franchisees.

Loblaw is currently in the process of renewing a financing arrangement for the benefit of its franchisees, which is expected to be completed during the second quarter of 2009. This financing arrangement could result in higher financing costs to the franchisees, which in turn could adversely affect operating results. Although Loblaw anticipates that appropriate financing for the franchisees will continue to be secured in the future, any failure to do so could adversely affect Loblaw's franchise programs and may impact its operating results. In addition, the renewed financing structure would need to be reviewed to determine if there are any implications with respect to the consolidation of variable interest entities.

### Competitive Conditions

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

Loblaw's competitors include traditional supermarket operators, as well as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drugstore and general merchandise. Others remain focused on supermarket-type merchandise.

Loblaw's inability to compete effectively with its current or any future competitors could result in, among other things, lessening of market share and lower pricing in response to its competitors' pricing activities. Accordingly, Loblaw's competitive position and financial performance could be negatively impacted.

Although much work remains to be done to successfully implement Loblaw's strategies, Loblaw believes that its competitive position in Canada remains strong. Loblaw will continue to focus on the value proposition of its banners and ensuring the right format is in the right market. In addition, its control label offering 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

#### *Control Label Products*

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

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

Health, Home and Wholesome is Loblaw's goal to be recognized as making healthy living affordable for all Canadians. Loblaw offers healthy food products with its control label products, particularly *Blue Menu* and *PC Organics* lines.

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. These products are sourced worldwide and cater to all areas of the home including bed, bath, kitchen, home decor and outdoor living.

In 2006, the *Joe Fresh Style* brand of adult apparel was launched in 40 stores with positive customer response. By the end of 2006, *Joe Fresh Style* apparel was in approximately 100 stores in all regions of the country. To facilitate this launch, Loblaw redesigned the *Joe Fresh Style* shopping environment with wide aisles, a central cash desk and fitting rooms. New fixtures and a signing program were also introduced. In 2007, Loblaw expanded the *Joe Fresh Style* brand and launched children's wear, intimates and accessories. In 2008, Loblaw continued to add square footage of selling space for *Joe Fresh Style* and expanded its distribution in Quebec and Atlantic Canada.

### *Marketing*

Loblaw's marketing programs are focused on scheduled events and on the promotion and advertising for various control label products and services which are exclusive to Loblaw. These programs are supported

by research activity, including consumer insight and brand awareness measures. The marketing team also influences item selection to be promoted in weekly flyers across all store formats.

Loblaw sells a wide variety of national brands and the marketing of these brands is accomplished primarily through promotion in-flyer, or through promotional activity in-store in collaboration with the national brands suppliers.

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

Loblaw's focus on marketing initiatives has increased over the last year, with increased investments, higher profile marketing campaigns and a greater emphasis on event marketing.

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

Loblaw also promotes its products and engages its consumers through its websites such as [www.PC.ca](http://www.PC.ca) and [www.joe.ca](http://www.joe.ca) which allow consumers to participate in contests, rate and review food products, and create a personal wardrobe.

#### *President's Choice Financial*

Loblaw offers *President's Choice Financial* banking services and products, which are provided by the direct banking division of a major Canadian chartered bank.

The *President's Choice Financial* MasterCard® is offered throughout Canada by *President's Choice* Bank. Third-party service providers process credit card transactions and provide call centre services and support in addition to certain credit and fraud monitoring for the *President's Choice Financial* MasterCard®. As at January 3, 2009, approximately \$1.775 billion of credit card receivables had been securitized and \$431 million of receivables were held by *President's Choice* Bank.

Loblaw currently offers *PC Financial* pet and travel insurance through its subsidiary, *PC Financial* Insurance Agency Inc. *PC Financial* pet insurance is currently available in each province and territory except for Quebec and New Brunswick. *PC Financial* travel insurance is currently available in all provinces and territories except for Quebec. *PC Financial* insurance ceased soliciting for new home and automobile insurance business effective February 21, 2009; however, it will continue to provide customer service (including claims service) and renewal policies to existing customers.

The use of many of the products and services offered through *President's Choice Financial* allows customers to earn *PC* points through a loyalty program which are redeemable towards free groceries and other rewards.

## *PC Mobile*

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

## Intellectual Property

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. Loblaw's 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 Loblaw's business are important assets and are defended vigorously. Certain of Loblaw's trademarks are licensed to third-party service providers, primarily in connection with *President's Choice Financial Services*.

## Information Technology

Loblaw uses various systems to support the major functional aspects of its business. The Information Technology ("IT") team provides support, maintenance and development services for these systems as well as managing the strategic direction of Loblaw's IT functions.

Loblaw operates point of sale technology that connects to a suite of in-store management tools for functions such as labour management, product ordering and inventory management. Warehouses are equipped with inventory management systems that facilitate picking and shipping. In addition, support tools are maintained for major functional areas of Loblaw's business such as merchandising, finance, human resources and marketing.

Loblaw maintains a secure, chain-wide network that transmits data between its stores, distribution centres and corporate offices and carries debit and credit transactional information from stores to its provider of clearing services. Loblaw also uses outsourced services, in particular for its mainframe-related applications and technology, pharmacy and Photolab businesses and services to *President's Choice Financial Services*.

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

In 2009, Loblaw's plan is to move from design to implementation by beginning to introduce new enterprise wide systems.

Loblaw has under invested in its IT infrastructure in the past and its systems are in need of being upgraded. The existing systems may not properly support the required business processes of Loblaw. An IT strategic plan was developed to guide the new systems environment that Loblaw requires. Implementation of this plan was initiated in 2008 and will continue throughout 2009. Change management risk and other associated risks will arise from the various projects which will be undertaken to upgrade existing systems and introduce new systems to effectively manage the business going forward. Failure by Loblaw to appropriately invest in information technology or failure to implement information

technology infrastructure in a timely and effective manner may negatively impact Loblaw's financial performance.

Any significant failure or disruption of IT systems could negatively affect Loblaw's reputation, revenues and financial performance. Failure or disruption in Loblaw's IT systems may result in a lack of relevant and reliable information that enables management to effectively prioritize its strategies which in turn may preclude Loblaw from optimizing its overall performance.

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

### 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 warehouses and distribution centres. Third-party logistics service providers are used at 5 distribution centres located in Pickering, Ajax, Caledon, Calgary and Vancouver. 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 third-party transport provider.

In 2007, Loblaw commenced a multi-year plan to invest in and improve its supply chain, as described on page 9 of this Annual Information Form. A new food distribution center in Ajax, Ontario, operated by a third party service provider, opened in 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. Certain general merchandise offerings are 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 services including cash management and treasury-related services. Loblaw is not dependent on these operations.

### Colleagues

As of January 3, 2009, Loblaw and its franchisees together employ over 139,000 full-time and part-time employees. A majority of Loblaw's store level and distribution centre colleagues are unionized. Currently, Loblaw's unionized workforce is covered by a total of 372 collective agreements with 17 unions.

## Lending

The President's Choice Bank Board of Directors has approved risk management policies that provide governance and oversight to effectively manage and control existing and potential credit risks involved in extending credit to *President's Choice Financial* MasterCard® customers. In order to minimize the associated credit risk, President's Choice Bank employs advanced credit scoring tools, stringent credit card portfolio monitoring, and technology that produces an effective account management and collection process.

## Environmental and Health and Safety Matters

Loblaw has environmental, health and workplace safety programs and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, Loblaw employs environmental risk assessments and audits using internal and external resources together with 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. Loblaw participates in industry and government-led environmental initiatives aimed at reducing the environmental impact of its operations.

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

In recent years, provincial and municipal governments have introduced legislation that imposes liabilities on retailers for costs associated with recycling and disposal of consumer goods packaging. This is a growing trend and Loblaw expects to be subject to increased costs associated with these laws.

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

## Corporate Social Responsibility

Loblaw has established a framework through which its corporate social responsibility ("CSR") activities are pursued and linked its commitments to its business plan through five pillars: Respect the environment; Source with integrity; Make a positive difference in our community; Reflect our nation's diversity; and Be a great place to work. Operations are reviewed and assessed against these pillars, and performance is reported through vehicles such as the CSR Report.

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

Loblaw will issue its second CSR Report in April of 2009.

## Food Safety, Public Health and Labelling

Loblaw is subject to risks 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 Loblaw's control label products, in relation to the production, packaging and design of products. Any even related to these matters has the potential to adversely affect Loblaw's reputation and its financial performance.

A majority of Loblaw's sales are generated from food products and it 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 Loblaw'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 are aimed at ensuring that potentially harmful products are expeditiously removed from inventory. Food safety related liability exposures are insured by Loblaw's 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 also actively supports consumer awareness of safe food handling and consumption. The ability of these procedures to address such events is dependent on their successful execution. The existence of these procedures does not mean that Loblaw will in all circumstances be able to mitigate these risks.

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

## **V. PRIVACY AND ETHICS**

The Company is committed to managing its activities in an ethical and proper manner in all respects. The Company has adopted a Code of Business Conduct setting out the Company's expectations for the ethical and appropriate behaviour of all its directors and employees. In addition, the Company has established an Ethics and Business Conduct Committee, comprised of senior management, 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 to 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, internal control or auditing irregularities and unethical behaviour impacting the Company.

Loblaw has adopted a Vendor Code of Conduct which sets out Loblaw's expectations of its vendor community in a number of areas including social responsibility. Any failure of the Company to adhere to its policies, the law or ethical business practices could significantly affect its reputation and brands and could, therefore, negatively impact the Company's financial performance.

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

Each year, the Company performs an Enterprise Risk Assessment ("ERA"), which identifies the key risks facing the Company and evaluates the risk management effectiveness for each of these risks. The assessment is primarily carried out through interviews with senior management, who assess the potential impact of risks and the likelihood that a negative impact will occur. The results of the ERA and other business planning processes are used to prioritize risk management activities, allocate resources effectively and develop a risk-based internal audit plan. The identified risks are presented and discussed with the Audit Committee.

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

A description of the risks, any of which has the potential to negatively affect financial performance, and the corresponding risk management strategies identified by the ERA is included in the Enterprise Risks and Risk Management section of the MD&A. The Company has operating and risk management strategies, including insurance programs, which help to mitigate the potential financial impact of these risks. While the Company employs strategies to minimize these risks, these strategies do not guarantee that events or circumstances will not occur which could negatively affect the Company's financial condition and performance. The discussion regarding risks facing the Company is set forth on pages 33 through 41 of the Company's 2008 MD&A. The MD&A is incorporated herein by reference.

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

### Share Capital

The share capital of GWL is comprised of common shares and preferred shares.

#### *Common Shares*

As of December 31, 2008, there were 129,074,526 common shares outstanding. There are an unlimited number of authorized common shares with voting rights of one vote per common share. The holders of common shares are entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of GWL, to receive any dividend declared by GWL and to receive the remaining property of GWL upon dissolution.

During the second quarter of 2008, GWL renewed its Normal Course Issuer Bid to purchase on the Toronto Stock Exchange, or enter into equity derivatives to purchase, up to five percent of its common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, GWL may purchase its common shares at the market price of such shares.

#### *Preferred Shares – Series I (authorized – 10,000,000)*

As of December 31, 2008, there were 9,400,000 5.80% non-voting Preferred Shares, Series I outstanding, with a face value of \$235,000,000, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.45 per share per annum which will, if declared, be payable quarterly. On or after December 15, 2006, GWL 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 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after December 15, 2007, at \$25.75 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after December 15, 2008, at \$25.50 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after December 15, 2009, at \$25.25 per share, together with all accrued and unpaid dividends to the redemption date; and  
On or after December 15, 2010, at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL. Upon liquidation, dissolution or winding up of GWL, 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 GWL.

*Preferred Shares – Series II (authorized – 10,600,000)*

As of December 31, 2008, there were 10,600,000 5.15% non-voting Preferred Shares, Series II outstanding, with a face value of \$265,000,000, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.2875 per share per annum which will, if declared, be payable quarterly. On or after April 1, 2009, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at \$25.00 per share, together with all accrued but unpaid dividends to but not including the redemption date. On and after July 1, 2009, these outstanding preferred shares are convertible, at the option of the holder, into a number of GWL's common shares determined by dividing \$25.00, together with all accrued but unpaid dividends to but not including the conversion date, by the greater of \$2.00 and 95% of the then current market price of its common shares. This option is subject to GWL's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers. At any time after issuance, GWL may, at its option, give the holder of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL. Upon liquidation, dissolution or winding up of GWL, 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 GWL. These preferred shares, which were previously presented as share capital on the consolidated balance sheet, are now presented as capital securities and are included in liabilities.

Subsequent to year-end, GWL provided the holders of its Preferred Shares, Series II with a notice that on April 1, 2009, GWL will redeem for cash the 10,600,000 million outstanding shares for \$25.00 per share (\$265 million in aggregate) plus accrued and unpaid dividends up to but excluding the date of redemption.

*Preferred Shares – Series III (authorized – 10,000,000)*

As of December 31, 2008, there were 8,000,000 5.20% non-voting Preferred Shares, Series III outstanding, with a face value of \$200,000,000, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.30 per share per annum, which will, if declared, be payable quarterly. On or after July 1, 2010, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 1, 2010, at \$26.00 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after July 1, 2011, at \$25.75 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after July 1, 2012, at \$25.50 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after July 1, 2013, at \$25.25 per share, together with all accrued and unpaid dividends to the redemption date; and  
On or after July 1, 2014, at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holder of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL. Upon liquidation, dissolution or winding up of GWL, 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 GWL.

*Preferred Shares – Series IV (authorized – 8,000,000)*

As of December 31, 2008, there were 8,000,000 5.20% non-voting Preferred Shares, Series IV outstanding, with a face value of \$200,000,000, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.30 per share per annum which will, if declared, be payable quarterly. On or after July 1, 2010, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after October 1, 2010, at \$26.00 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after October 1, 2011, at \$25.75 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after October 1, 2012, at \$25.50 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after October 1, 2013, at \$25.25 per share, together with all accrued and unpaid dividends to the redemption date; and  
On or after October 1, 2014, at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holder of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL. Upon liquidation, dissolution or winding up of GWL, 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 GWL.

*Preferred Shares – Series V (authorized – 8,000,000)*

As of December 31, 2008, there were 8,000,000 4.75% non-voting Preferred Shares, Series V outstanding, with a face value of \$200,000,000, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.1875 per share per annum which will, if declared, be payable quarterly. On or after July 1, 2011, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 1, 2011, at \$26.00 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after July 1, 2012, at \$25.75 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after July 1, 2013, at \$25.50 per share, together with all accrued and unpaid dividends to the redemption date;  
On or after July 1, 2014, at \$25.25 per share, together with all accrued and unpaid dividends to the redemption date; and  
On or after July 1, 2015, at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL 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 GWL on a share-for-share basis on a date specified by GWL. Upon liquidation, dissolution or winding up of GWL, each Preferred Share, Series V 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 V holders are not entitled to any further distribution of the assets of GWL.

Trading Price and Volume

The GWL common shares and preferred shares Series I, II, III, IV, and V are listed and posted for trading on the Toronto Stock Exchange under the share symbols "WN", "WN.PR.A", "WN.PR.B", "WN.PR.C", "WN.PR.D" and "WN.PR.E" respectively.

The monthly high and low trading prices and the average daily volume by month for the Company's common shares for the year ended December 31, 2008, are as follows:

Month	Common Shares		
	High (\$ per common share)	Low (\$ per common share)	Avg. Daily Vol. by Month (in shares)
January	56.50	52.29	144,509
February	54.00	45.77	166,693
March	47.95	43.43	168,692
April	51.38	45.75	122,223
May	52.50	48.51	197,910
June	52.25	45.94	164,482
July	48.34	41.83	129,158
August	47.54	43.78	115,232
September	53.49	46.50	317,906
October	64.45	50.24	308,591
November	64.25	52.95	228,637
December	64.24	55.15	179,518

The monthly high and low trading prices and the average daily volume by month for Preferred Shares, Series I, II, III, IV, and V for the year ended December 31, 2008, are as follows:

Month	Preferred Shares Series I			Preferred Shares Series II			Preferred Shares Series III		
	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	22.29	19.77	18,442	25.50	24.96	21,830	20.74	18.50	19,262
February	22.69	21.76	7,556	25.50	25.00	1,477	20.41	19.01	7,676
March	22.23	20.00	5,656	25.29	24.65	3,030	20.09	18.61	5,043
April	21.25	20.50	6,052	26.25	24.75	8,296	19.50	18.50	4,779
May	22.40	20.51	10,236	25.89	24.91	9,057	19.58	18.76	5,924
June	21.74	19.35	6,925	26.20	24.80	5,722	19.75	17.32	7,087
July	20.13	18.00	5,798	25.00	24.50	2,754	18.00	16.11	7,966
August	20.87	18.76	4,558	25.10	24.99	5,001	19.04	16.75	3,755
September	21.01	18.50	8,595	25.30	24.05	5,043	18.93	16.35	5,046
October	19.00	16.51	25,133	25.34	24.00	38,660	16.85	13.02	10,252
November	19.97	17.40	11,919	25.50	24.90	14,828	17.50	15.30	7,501
December	20.25	17.21	11,115	26.00	24.60	34,113	16.90	14.55	12,726

Month	Preferred Shares Series IV			Preferred Shares Series V		
	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	20.48	18.37	9,671	19.60	17.27	15,115
February	20.40	18.86	6,880	19.35	18.30	9,770
March	20.39	18.57	7,952	18.94	17.05	5,576
April	19.94	18.35	6,047	17.58	16.44	7,306
May	19.95	18.80	6,092	17.86	16.85	9,503
June	19.32	17.28	6,108	18.10	15.76	9,744
July	17.61	16.43	3,281	16.73	14.76	6,923
August	19.00	17.26	2,901	16.95	16.07	6,777
September	18.74	16.40	4,583	16.98	15.71	8,881
October	16.69	14.50	7,724	16.49	14.00	9,787
November	18.09	15.40	10,566	16.19	13.50	9,272
December	17.10	14.80	14,228	16.00	13.50	19,586

The outstanding medium-term notes (“MTN”) of the Company are not listed or quoted on a recognized exchange.

During the second quarter of 2008, GWL exercised its right to redeem all of the remaining outstanding 3% Exchangeable Debentures pursuant to the trust indenture dated June 29, 1998, by paying cash of \$633.08 per each \$1,000 principal amount of Exchangeable Debentures for \$137 million plus accrued but unpaid interest of approximately \$3 million, for an aggregate amount of approximately \$140 million. GWL also sold its investment in Domtar (Canada) Paper Inc. for \$144 million, and used these proceeds to settle its obligation under the Exchangeable Debentures.

#### Credit Ratings

On February 12, 2008, Dominion Bond Rating Service (“DBRS”) downgraded GWL’s MTN and debentures to “BBB” from “BBB (high)”, the short-term credit rating to “R-2 (high)” from “R-1 (low)”, Exchangeable Debentures to “BBB (low)” from “BBB” and the preferred shares to “Pfd-3” from “Pfd-3 (high)”, all with a Stable trend. These ratings remained the same until December 12, 2008, when DBRS placed the ratings “Under Review with Developing Implications” following the announcement that a subsidiary of GWL, Dunedin Holdings S.à r.l., had entered into an agreement with Grupo Bimbo, S.A.B. de L.V. to sell the U.S. fresh bakery business. On March 11, 2009, DBRS revised the trend on the Company’s commercial paper, notes and debentures, and preferred shares ratings to “Stable” from “Under Review with Developing Implications”.

During the second quarter of 2008, Standard & Poor’s (“S&P”) affirmed the Company’s long-term corporate credit, commercial paper and preferred share ratings at “BBB”, “A-2” and “P-3 (high)”, respectively. The Company was removed from “CreditWatch with Negative Implications” and the ratings outlook was changed to “Negative”. The Company was subsequently placed back on “CreditWatch with Negative Implications” by S&P on December 5, 2008, following the announcement that Dunedin Holdings S.à r.l., was in discussions with Grupo Bimbo, S.A.B. de C.V. about the possible sale of the U.S. fresh bakery business.

As at March 23, 2009, the Company's credit ratings for its securities are as follows:

Credit Ratings and Trends (Canadian Standards)	Dominion Bond Rating Service		Standard & Poor's	
	Rating	Trend	Credit Rating	Outlook
Commercial paper	R-2 (high)	Stable	A-2	CreditWatch with Negative Implications
Medium-term notes	BBB	Stable	BBB	CreditWatch with Negative Implications
Preferred shares	Pfd-3	Stable	P-3 (high)	CreditWatch with Negative Implications
Other notes and debentures	BBB	Stable	BBB	CreditWatch with Negative Implications

As at March 23, 2009, Loblaw Companies Limited's credit ratings for its securities were as follows:

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

The rating organizations base their credit ratings on quantitative and qualitative considerations which are relevant for the Company and Loblaw. These ratings are forward-looking and intended to give an indication of the risk that the Company or Loblaw will not fulfill its obligations in a timely manner. Credit ratings may not reflect the potential impact of all risks on the value of the securities. These ratings are not recommendations to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. As a result of the DBRS downgrade of the short-term credit rating, GWL and Loblaw have limited access to commercial paper.

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

#### Dominion Bond Rating Service

##### *Commercial Paper*

DBRS's ratings for commercial paper range from R-1 (high) to D. The R-2 (high) rating is ranked fourth of ten rating categories. Short-term debt rated R-2 (high) is considered to be at the upper end of adequate credit quality. The ability to repay obligations as they mature remains acceptable, although the overall strength and outlook for key liquidity, debt and profitability ratios is not as strong as credits rated in the R-1 (low) category. Relative to the latter category, other shortcomings often include areas such as stability, financial flexibility, and the relative size and market position of the entity within its industry.

The R-2 (middle) rating is ranked fifth of ten rating categories. Short-term debt rated R-2 (middle) is considered to be of adequate credit quality. Relative to the R-2 (high) category, entities rated R-2 (middle)

typically have some combination of higher volatility, weaker debt or liquidity positions, lower future cash flow capabilities, or are negatively impacted by weaker industry. Ratings in this category would be more vulnerable to adverse changes in financial and economic conditions.

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

DBRS' credit ratings for long-term debt range from AAA to D. Each rating category is denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category.

The BBB rating is ranked fourth of ten rating categories. Long-term debt rated BBB is of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present, which reduces the strength of the entity and its rated securities.

#### *Preferred Shares*

DBRS' credit ratings for preferred shares range from Pfd-1 to D. The Pfd-3 rating is ranked third of six rating categories. Preferred shares rated Pfd-3 are of adequate credit quality. While protection of dividends and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection. Pfd-3 ratings generally correspond with companies whose senior bonds are rated in the higher end of the BBB category.

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

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

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

#### Standard & Poor's

##### *Commercial Paper*

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

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

Standard & Poor's long-term issue credit ratings range from AAA to D. The BBB rating is ranked fourth of ten rating categories. An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

### *Preferred Shares*

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

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.

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

## **VIII. DIVIDENDS**

The declaration and payment of dividends and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time. Over the long-term, the Company's objective is for its common dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share from continuing operations adjusted as appropriate for items which are not regarded to be reflective of ongoing operations, giving consideration to the year-end cash position, future cash flow requirements and investment opportunities. Currently, there is no restriction that would prevent the Company from paying dividends at historical levels. Dividends on the preferred shares rank in priority ahead of the common shares.

### Restrictions

Under its 12.70% Promissory Note due November 8, 2030, GWL 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, GWL 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.

#### Historical Dividend Payments

The Company's practice has been to declare and pay dividends quarterly. The amount of cash dividends declared per common and preferred share for each of the three most recently completed years is as follows:

<b>Dividends declared per share (\$)</b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Common shares	1.44	1.44	1.44
Preferred shares, Series I	1.45	1.45	1.45
Preferred shares, Series II	1.29	1.29	1.29
Preferred shares, Series III	1.30	1.30	1.30
Preferred shares, Series IV	1.30	1.30	1.30
Preferred shares, Series V	1.19	1.19	0.83

Subsequent to year-end, the Company declared a quarterly dividend of \$0.36 per common share, payable on April 1, 2009. Quarterly dividends were also declared for the preferred shares as follows: \$0.3625 per Preferred Share, Series I, payable on March 15, 2009; \$0.321875 per Preferred Share, Series II, and \$0.3250 per Preferred Share, Series III, IV, and V, all payable on April 1, 2009.

## IX. DIRECTORS AND OFFICERS

The following list of Directors and Officers is current to March 23, 2009.

### Directors

<b><u>Name, Province and Country of Residence</u></b>	<b><u>Principal Occupation</u></b>	<b><u>Director Since:</u></b>
W. Galen Weston, O.C. <sup>1*</sup> Ontario, Canada	Chairman and President, George Weston Limited	1967
Stephen E. Bachand, <sup>3,5</sup> Florida, United States	Corporate Director	2007
A. Charles Baillie <sup>2*3</sup> Ontario, Canada	Chair of the Alberta Investment Management Company (investment corporation)	2003
Robert J. Dart <sup>4,5</sup> Ontario, Canada	Corporate Director	May 13, 2008, and 1994-2007
Peter B. M. Eby <sup>1,2,3*</sup> Ontario, Canada	Corporate Director	2000
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 (holding company)	1996
Allan L. Leighton Ontario, Canada	Deputy Chairman, George Weston Limited Deputy Chairman and President, Loblaw Companies Limited	2006
Isabelle Marcoux <sup>2</sup> Quebec, Canada	Vice Chair of the Board and Vice President, Corporate Development of Transcontinental Inc. (printing and publishing company)	2007
J. Robert S. Prichard, O.C., O.Ont <sup>3,4</sup> Ontario, Canada	President and Chief Executive Officer, Torstar Company (media and newspaper company)	2000
Thomas F. Rahilly <sup>2,4,5</sup> Ontario, Canada	Corporate Director	2007

- \* Chair 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

<b><u>Name, Province and Country of Residence</u></b>	<b><u>Principal Occupation</u></b>
W. Galen Weston, O.C. Ontario, Canada	Chairman and President
Allan L. Leighton Ontario, Canada	Deputy Chairman
Robert G. Vaux Ontario, Canada	Chief Financial Officer
Gordon A.M. Currie Ontario, Canada	Executive Vice President and Chief Legal Officer
Louise M. Lacchin Ontario, Canada	Executive Senior Vice President, Finance and Corporate Development
Robert A. Balcom Ontario, Canada	Senior Vice President, General Counsel – Canada & Secretary
Roy R. Conliffe Ontario, Canada	Senior Vice President, Labour Relations
Manny DiFilippo Ontario, Canada	Senior Vice President, Risk Management and Audit Services
J. Bradley Holland Ontario, Canada	Senior Vice President, Tax
Lucy J. Paglione Ontario, Canada	Senior Vice President, Pension and Benefits
Geoffrey H. Wilson Ontario, Canada	Senior Vice President, Shared Services

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 Direct Energy; 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; and Mr. Thomas F. Rahilly, who was Vice Chairman of RBC Capital Markets, a division of Royal Bank of Canada until the end of 2006.

As at December 31, 2008, Mr. W. Galen Weston beneficially owned, directly or indirectly, 80,723,448 common shares or 62.5% of the issued and outstanding common shares of the Company. Other directors and senior executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control over, less than 1% of the issued and outstanding common shares of the Company.

Mr. Bachand was a director of Krystal Bond Inc. when it became subject to a cease trade order for failure to file financial statements on April 12, 2002. It has since ceased to operate as a going concern. Mr. Bachand is no longer a director of Krystal Bond Inc.

Mr. A. Charles Baillie, a director of the Company, was a director of Dana Corporation when it 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. Dana Corporation emerged from bankruptcy proceedings in January 2008.

Mr. Robert G. Vaux, the Chief Financial Officer of the Company, was on the board of directors of Noble China Inc. until his resignation in November 2002. Noble China was dissolved by the court in 2005 following a reorganization under the *Companies Creditors Arrangement Act*.

Mr. Allan L. Leighton, the Deputy Chairman of the Company, was a member of the board of directors of Leeds United, PLC when that company was subject to administrative proceedings.

## **X. LEGAL PROCEEDINGS**

In the ordinary course of its business, the Company is named as a defendant in legal actions or may commence legal actions against third parties. Currently, there are no significant actions in which Loblaw or GWL are named as defendants.

The trustees of a multi-employer pension plan in which employees of Loblaw and those of its independent franchisees participate are involved in proceedings brought by Financial Services Commission of Ontario whereby it has been alleged that the trustees violated certain provisions of the *Pension Benefits Act* (Ontario) in its management of the plan's funds. One of the trustees, an officer of Loblaw, is entitled to indemnification from Loblaw.

On March 7, 2007, pursuant to a transaction whereby Domtar was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either exchangeable shares of Domtar (Canada) Paper Inc. or common shares of Domtar Corporation, a Delaware Corporation. The Share Purchase Agreement governing the June 1998 sale by GWL of E.B. Eddy Paper, Inc. to Domtar (the "SPA") contains a price adjustment clause. The SPA provides, subject to certain limited exceptions, that if any person subsequently acquired more than 50% of the outstanding voting shares of Domtar, the price adjustment clause applies. The Company believes that a price adjustment in the amount of \$110 million is payable to it by Domtar and the Company has demanded payment of such amount from Domtar. Domtar's position is that the price adjustment clause does not apply because of the application of an exception contained in the SPA. The Company has commenced an action against Domtar for \$110 million. The parties have exchanged legal pleadings.

## **XI. MATERIAL CONTRACTS**

The Company has entered into an agreement with its subsidiary, Loblaw Companies, for the provision of certain administrative services by each company to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information systems, risk management, treasury and legal. Payments between the companies are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Loblaw Companies together, each party pays the appropriate portion of such costs.

The purchase and sale agreement relating to the sale of the US fresh baking business by Dunedin Holdings S.à r.l., a subsidiary of the Company, to Grupo Bimbo, S.A.B. de C.V. for gross and net proceeds of approximately US\$2.5 billion, including approximately US\$125 million of interest bearing assets is also a material contract of the Company. The sale transaction was completed on January 21, 2009.

## **XII. RELATED PARTY TRANSACTIONS**

The Company's majority shareholder, Wittington Investments, Limited ("Wittington"), and its affiliates are related parties. The Company, in the normal course of business, has routine transactions with these related parties, including the rental of office space at market prices from Wittington. From time to time, the Company and Wittington may make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations and, as a result, may enter into agreements in that regard. These elections and accompanying agreements do not have any material impact on the Company.

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

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

Further information on related party transactions can be found on page 41 of the MD&A, which information is incorporated by reference.

## **XIII. TRANSFER AGENTS AND REGISTRARS**

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

## **XIV. EXPERTS**

The Company's auditors are KPMG LLP, who prepared the Auditors' Report to Shareholders in respect of the Company's 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.

## **XV. AUDIT COMMITTEE INFORMATION**

The Audit Committee Charter, as approved by the Company's Board of Directors on March 23, 2009, is included in Appendix A. The members of the Audit Committee are indicated above. All members of the Audit Committee are independent and financially literate (as those terms are defined in Multilateral Instrument 52-110 of the Canadian Securities Administrators) and have the following education and experience which is relevant to their roles as Audit Committee Members:

Mr. 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 the University of Toronto and an M.B.A. from the University of California-Berkeley.

Ms. Marcoux is Vice Chair of the Board and Vice President, Corporate Development, of Transcontinental Inc. She has an LL.B. in Civil Law and a B.A. in Political Science and Economics from McGill University.

Mr. Rahilly was Vice Chairman of RBC Capital Markets, a division of Royal Bank of Canada. He obtained a B.A., an LL.B. and an M.A. from the University of Toronto.

## XVI. EXTERNAL AUDIT FEES

The aggregate fees of KPMG LLP for professional services rendered for the audit of the Company's financial statements and other services for the fiscal years 2008 and 2007 are as follows:

	<b>2008</b> <b>\$(000's)</b>	<b>2007</b> <b>\$(000's)</b>
Audit fees <sup>(1)</sup>	4,228	4,343
Audit-related fees <sup>(2)</sup>	3,448	2,654
Tax consultant fees <sup>(3)</sup>	86	169
All other fees <sup>(4)</sup>	26	86
<b>Total Fees</b>	<b>\$7,788</b>	<b>\$7,252</b>

- (1) Audit fees include fees for services related to the audit of the Company's consolidated financial statements.
- (2) Audit-related fees include assurance and related services that are performed by the Company's auditors. These services include the review of quarterly reports to shareholders, audit of pension plans, comfort letters and the interpretation of accounting and financial reporting standards.
- (3) Tax consultant fees include fees for tax compliance and advice.
- (4) All other fees relate to risk management, internal control compliance and legislative and/or regulatory compliance services.

The Audit Committee charter provides that the Audit Committee shall pre-approve the retaining of the auditors for any non-audit service. The Audit Committee may delegate to one or more members the authority to pre-approve the retaining of the auditors for any non-audit service to the extent permitted by law.

## XVII. ADDITIONAL INFORMATION

- Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, where applicable, will be contained in the Company's Management Proxy Circular for the Annual Meeting of shareholders to be held on May 14, 2009. Additional financial information is also provided in the Company's consolidated financial statements and MD&A for its most recently completed financial year.
- Additional information of the Company has been filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") available online at [www.sedar.com](http://www.sedar.com). The Company's internet address is [www.weston.ca](http://www.weston.ca).
- 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

#### AUDIT COMMITTEE CHARTER

##### 1. RESPONSIBILITY

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

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

##### 2. MEMBERS

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

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

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

##### 3. CHAIR

Each year, the Board shall appoint one member to be Chair of the Audit Committee. If, in any year, the Board does not appoint a Chair, the incumbent 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 governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the Auditor and the steps taken to deal with any issues raised in these reviews.

##### **b. Confirmation of Independence of Auditor**

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

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

**c. Rotation of Engagement Partner/Lead Partners**

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

**d. Pre-Approval of Non-Audit Services**

The Audit Committee shall pre-approve the retaining of the Auditor for any non-audit service, provided that no approval shall be provided for any service that is prohibited under the rules of the Canadian Public Accountability Board or the Independence Standards of the Canadian Institute of Chartered Accountants. Before 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 and the related MD&A, before recommending them for approval by the Board, to assess whether or not they present fairly in all material respects in accordance with GAAP the financial condition, results of operations and cash flows of the Company.

In conducting their review, the Audit Committee should:

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

- satisfy itself that management has established appropriate procedures to comply with applicable legislation for the remittance of taxes, pension monies and employee remuneration.

**i. Review of Interim Financial Statements**

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

**j. Other Financial Information**

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

**k. Review of Prospectuses and Other Regulatory Filings**

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

**l. Review of Related Party Transactions**

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

**m. Review of Internal Audit 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 Control over Financial Reporting and Disclosure Controls and Procedures**

The Audit Committee shall review with the assistance of management the adequacy of the internal control over financial reporting that has been adopted by the Company.

The Audit Committee shall review with the assistance of management 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 Ethics and Conduct Committee any material matters arising from any known or suspected violation of the Company's Code of Conduct with respect to financial and accounting matters and any material concerns regarding questionable accounting or auditing matters raised through the Company's ethics response line or otherwise.

**q. 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 shall monitor the effectiveness of the Company's procedures for the receipt, retention and follow-up of complaints received by the Company regarding accounting, internal controls, disclosure controls or auditing matters and for the confidential, anonymous submission of

concerns by employees of the Company regarding accounting, internal controls, or auditing matters. The Committee shall review with management periodic reports in this regard.

## **8. REPORTING**

The Audit Committee shall report to the Board on:

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