

Management's Discussion and Analysis

11. Related Party Transactions

The Company's majority shareholder, George Weston Limited and its affiliates ("Weston"), other than the Company, are related parties. It is the Company's policy to conduct all transactions and settle all balances with related parties on market terms and conditions.

Related party transactions include:

Inventory Purchases Purchases of inventory from related parties for resale in the distribution network represented approximately 3% (2005 – 3%) of the cost of sales, selling and administrative expenses.

Cost Sharing Agreements Weston has entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and information technology related matters on behalf of the Company. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for its proportionate share of the costs incurred on its behalf. Payments by the Company pursuant to these cost sharing agreements were approximately \$25 million (2005 – \$22 million).

Real Estate Matters The Company leases certain properties from an affiliate of Weston, namely office space for approximately \$4 million (2005 – \$4 million). During 2006, the Company purchased from an affiliate of Weston a property designated for future development for consideration of \$8 million, which was prepaid in accordance with a former ground lease between the parties.

Borrowings/Lendings The Company, from time to time, may borrow from or may lend to Weston on a short term basis at commercial paper rates. There were no such amounts outstanding as at year end.

Income Tax Matters From time to time, the Company and Weston and its affiliates 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 did not have any material impact on the Company.

Management Agreements The Company, through Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company, manages certain United States cash, cash equivalents and short term investments for wholly owned non-Canadian subsidiaries of Weston. Management fees are based on market rates and included in interest expense.

Sale of Loan Portfolio During 2005, Glenhuron sold a portfolio of third-party long term loans receivable to a wholly owned subsidiary of Weston. The loans in this portfolio were originally acquired from third-party financial institutions in 2001. This transaction was undertaken by Glenhuron as part of its overall ongoing management of its investment portfolio.

The amount of the cash consideration of U.S.\$106 million was based on a fair market value of the loan portfolio and was approximately equal to carrying value. An independent review of the valuation analysis has been obtained by the Company to ensure that Glenhuron's methodology used in arriving at fair market value was reasonable. As at the date of sale, the current portion of this loan portfolio of U.S.\$13 million was included in accounts receivable and the long term portion of U.S.\$93 million was included in other assets.

Glenhuron has entered into an agreement with a subsidiary of Weston for the administration of the loan portfolio.