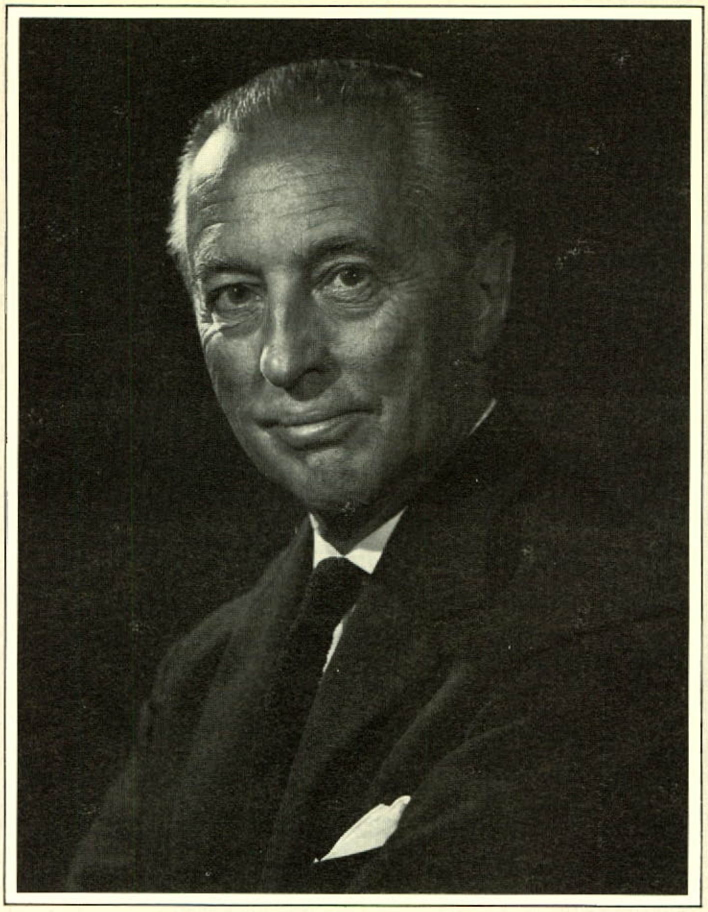
C

WESTON

GEORGE WESTON LIMITED

ANNUAL REPORT 1978



WILLARD GARFIELD WESTON
26 FEBRUARY 1898 - 22 OCTOBER 1978

In 1928 W. Garfield Weston incorporated "George Weston Limited" with assets consisting of a modest biscuit bakery on Peter Street in Toronto. At the time of his unexpected passing on October 22, 1978, from a base of this one small bakery, he had built one of the largest groups of companies in the world providing employment for over 250,000 people.

During his business career he became involved in building enterprises in many countries of the world. However, always of the utmost interest and concern to him was the progress of the North American company. He was proud that during the 50 years of his chairmanship, despite violent swings in the world's economy, George Weston Limited was able to maintain a record of uninterrupted dividends. Although Mr. Weston spent much of his life in Britain he remained steadfastly Canadian. The only governmental honour he accepted during his lifetime was the Order of Canada – refusing others on the premise that they would obscure that which he held most dear – his Canadian heritage.

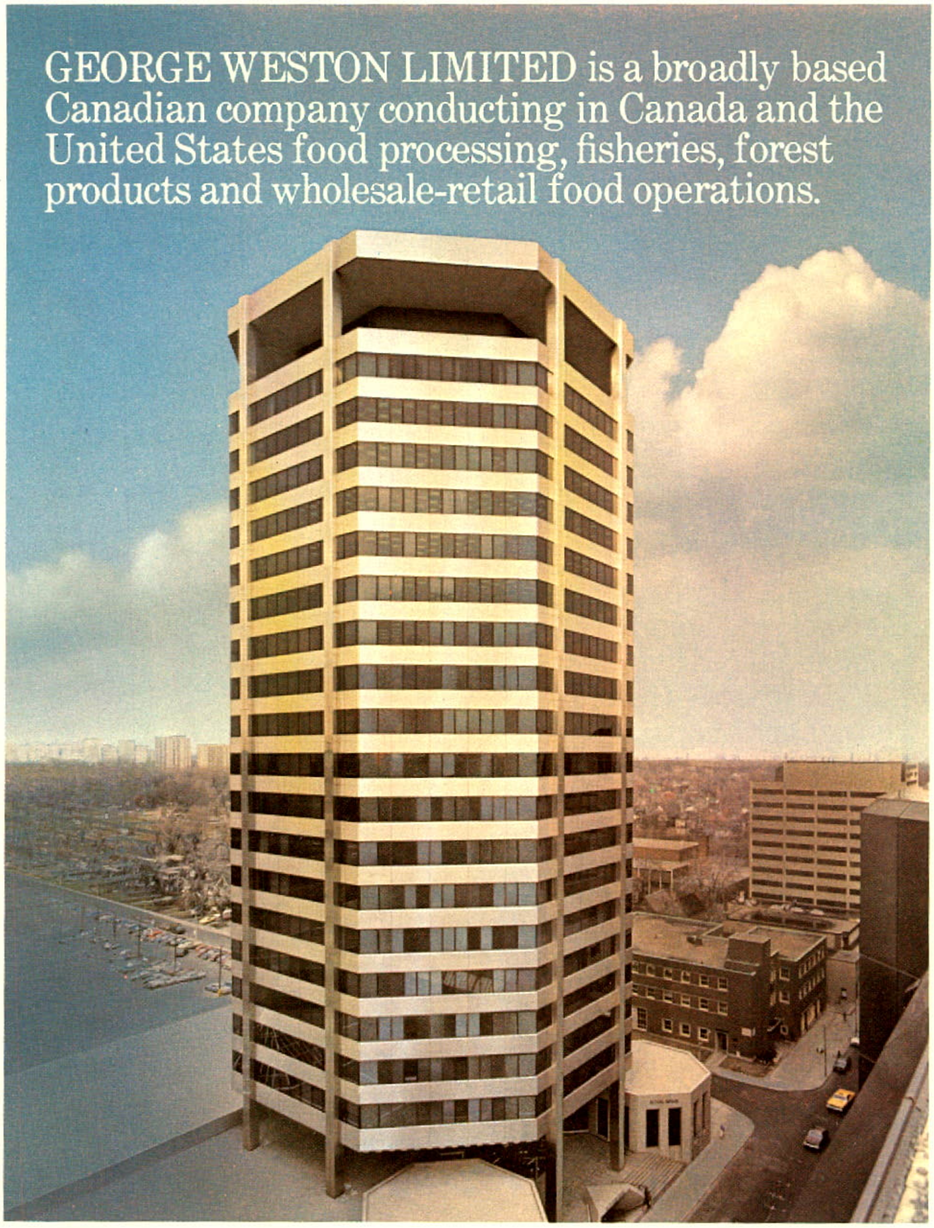
In every home he ever lived was a picture of a storm-tossed sailing ship with the inscription "tis the set of the sails and not the gales that determine the way we go". The set of Garfield Weston's sails was characterized by a boundless and indestructible enthusiasm for life and its challenges.

That attitude and the example of his accomplishments is the legacy that he leaves to those who now direct the enterprises that bear his name.

CONTENTS

George Weston Limited
Annual Meeting – May 14, 1979 at 10:30 a.m.
Royal York Hotel
Toronto, Ontario

GEORGE WESTON LIMITED is a broadly based Canadian company conducting in Canada and the United States food processing, fisheries, forest products and wholesale-retail food operations.



FINANCIAL HIGHLIGHTS	1978	*1977*
Sales	$5,237,808,000	*$4,590,090,000*
Earnings Before Extraordinary Items	50,615,000	*27,477,000*
Net Earnings	57,284,000	*32,045,000*
Cash Flow from Operations	134,953,000	*95,393,000*
Working Capital	210,267,000	*175,853,000*
Working Capital Ratio	1.40 to 1	*1.37 to 1*
Dividends	13,598,000	*7,754,000*
Shareholders' Equity	398,759,000	*305,201,000*
Total Assets	1,282,086,000	*1,146,006,000*
Per Common Share		
Earnings Before Extraordinary Items	$4.06	*$2.36*
Net Earnings	4.66	*2.77*
Dividends	.72	*.60*

CHAIRMAN'S REPORT

It is with mixed feelings that I report on this year's activities. Sales and earnings have reached new highs, and your Company is moving forward strongly. On October 22, 1978, however, we lost Garfield Weston, the man who for over 50 years was the inspirational head of this Company. He will be greatly missed, and the loss of his judgment and enthusiasm will be felt at every level throughout the organization.

During 1978 sales improved to $5,238 million from $4,590 million, an increase of 14%. Earnings before extraordinary items were $50.6 million ($4.06 per common share) in 1978 compared to $27.5 million ($2.36 per common share) in 1977. Net earnings for 1978 were $57.3 million ($4.66 per common share) as compared to $32.0 million ($2.77 per common share) in 1977.

During this year the mix of profitability changed significantly in favour of the resource-based industries. This has occurred in large part, although indirectly, as a result of devaluation of the Canadian dollar. This devaluation, along with significant inflation of capital costs, has dramatically increased the costs of new fixed assets and working capital. In order to remain competitive in Canada and abroad an extremely high level of reinvestment is essential, and if 1978 gains are not to prove illusory, labour cost increases in the short term must be moderate.

Our unstable and highly inflationary economic environment makes forecasting difficult. Devaluation has also inflated food prices dramatically and consumer spending in this area will likely remain weak. During 1978, however, our ability to withstand temporarily uncertain economic conditions was improved as our debt levels were reduced and our financial position strengthened.

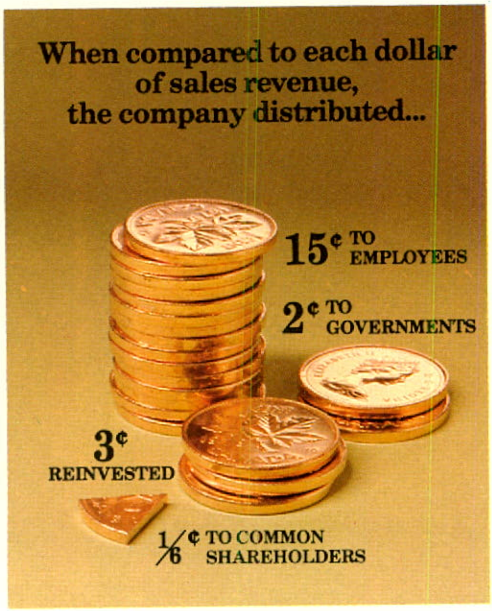
In the last few years activities have taken place in your Company that have put it on a firm foundation. In total, momentum for further improvements in sales and profits is strong as each division is aggressively improving its fixed asset base and operating skills. I feel your Board should record its satisfaction with the results produced by operating managements in every sector. Thanks must be expressed to our customers and personnel for their continued support in rapidly changing times. We are now strongly positioned to make a real contribution to the economic performance of our country and a reasonable profit for our shareholders, and I look forward to the challenges of the future. It is also appropriate at this time to thank our stockholders for their patience over the past few years and to assure them that their confidence in this great Canadian Company will be rewarded.

W. Galen Weston

W. Galen Weston

Chairman and President

THE YEAR IN REVIEW

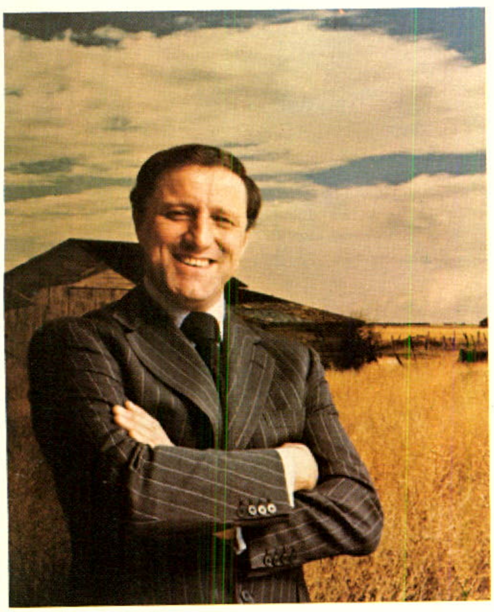


Record dollar sales and earnings were achieved in 1978. Sales increased to $5.24 billion from $4.59 billion and net earnings improved to $57.3 million from $32.0 million. Net earnings per share increased to $4.66 from $2.77 and as a percentage of sales, improved to 1.1% from .7%. Return on total average capital employed improved to 16.4% from the 12.2% level achieved in 1977.

Weston is in business to satisfy consumer needs. In addition to the consumer, Weston has many other constituencies which it must satisfy and which it must reward. The Weston companies provided in 1978 to their employees across Canada and in the United States $785 million in wages, salaries and other benefits. In addition, approximately $104 million was incurred for all forms of taxes.

Economic growth and the creation of jobs were enhanced by Weston investment in the year in land, buildings and equipment of $119.1 million and in working capital of $34.4 million – a total of $153.5 million, provided largely from earnings and depreciation. In comparison, $7.9 million was returned in the form of dividends to the common shareholders – some 5,000 Canadian men and women, retirement funds and other investors vital to the economy – as compensation for the use of their equity capital.

As the accompanying chart illustrates, after providing for materials purchased and other costs of the business and as compared to each dollar of sales revenue, 15¢ was distributed to employees, 2¢ to the public through government taxes, and 1/6¢ to common shareholders, whereas 3¢ was reinvested in the business. We believe that it is important to maintain a fair balance in distributing the benefits of such economic activity among the various constituents in our society. The positive contribution to the Canadian economy made by our business in 1978 and by other businesses must be accompanied by equally positive returns to investors.

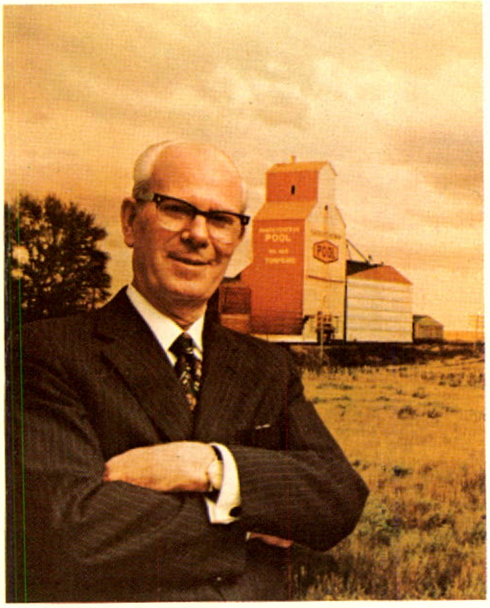


Mark Hoffman
Senior Vice President and Chief Financial Officer
George Weston Limited

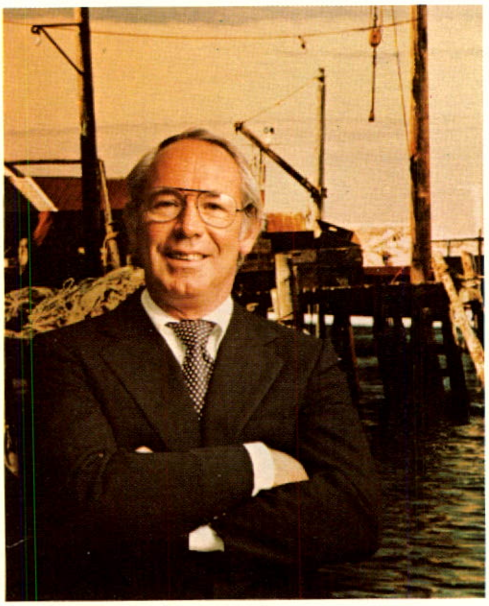
The financial position of the Company was greatly strengthened in 1978. Long-term debt as a percentage of shareholders' equity was reduced to 44%, while total debt at year end represented some 64% of total group equity including minority interest. As a result, interest costs were reduced materially, despite higher interest rates.

FOOD PROCESSING

Our food processing operations experienced a difficult year, but one in which substantial investments were made to ensure the long-term health and growth of our businesses. Sales increased 10.9% to $610.1 million (including inter-company sales of $166 million) but operating income declined 8.8% to $28.9 million.



Frank A. Riddell
Senior Vice President,
Food Processing
George Weston Limited
Chairman of the Board
Weston Bakeries Limited



Richard I. Nelson
Chairman and Chief Executive Officer
British Columbia Packers Limited

The earnings decline resulted largely from the continued consolidation of the Canadian biscuit and confectionery operations. The United States operation showed improvement in both sales and earnings. Biscuit and Confectionery sales at $158.7 million in total increased 8.0%. Bakery and Flour Milling sales at $165.1 million were up 6.0%, and despite very strong cost pressures earnings were improved. Chocolate and Dairy suffered cost and price squeezes, despite increased sales of $134.2 million, or 14.6% over 1977. A major three year plant renovation program at Neilson's was announced late in 1978. Food Specialties continued a steady improvement in sales and earnings. Sales were $152.1 million, an increase of 16.6% over 1977.

FISHERIES

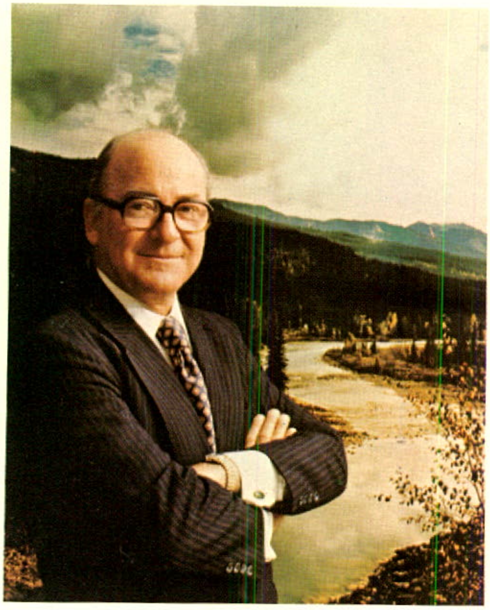
1978 was a year of development and growth for our fisheries division. Sales at $308.3 million and operating income of $30.6 million exceeded all previous levels. B. C. Packers recorded sales of $248.5 million as compared to $213.3 million in 1977, while Connors Bros. sales increased to $59.8 million from $47.5 million.

The strong performance in 1978 was due to a combination of increased demand and strength of currencies in the major export markets, coupled with moderate success in maintaining the volume of fish landings at reasonable cost. The developing recognition of fish as an important and economical source of protein and the recent establishment of the 200 mile fishing zone by most major fishing nations has resulted in a favourable realignment of world markets for our fisheries on both the Atlantic and Pacific coasts. Full advantage will be taken of our proven capabilities in developing the wider markets. However, it must be recognized that the resource availability is highly cyclical, the market volatile and industry capacity already high.

FOREST PRODUCTS

During 1978 our forest products operations improved as industry capacity and demand were brought into balance at more favourable world price levels. Performance was stronger at the end of the year since prices for our fine paper and tissue products generally lag the markets for less specialized paper grades. Sales increased 24.1% to $277.5 million while operating income rose to $22.2 million from $1.6 million.

Increased volume in both domestic and export markets and price increases made possible by the devaluation of the Canadian dollar were significant factors in the increased sales. The new line of Swan's Down bathroom tissue made excellent progress in the year as did our specialty fine paper lines. Lumber demand remained strong and export sales to the United States yielded greater returns due to currency gains. Our facilities for the production of pulp, fine paper, tissue and lumber have operated at full capacity since the latter half



John C. Scarth
President and Chief Executive Officer
E.B. Eddy Forest Products Ltd.

Richard J. Currie
Senior Vice President, Food Distribution
George Weston Limited,
President and Chief Operating Officer
Loblaw Companies Limited

of the year. During 1978 the $14.7 million second stage of the new oxygen bleaching process was begun at Espanola and when completed in 1980 will result in a major reduction in operating costs.

FOOD DISTRIBUTION

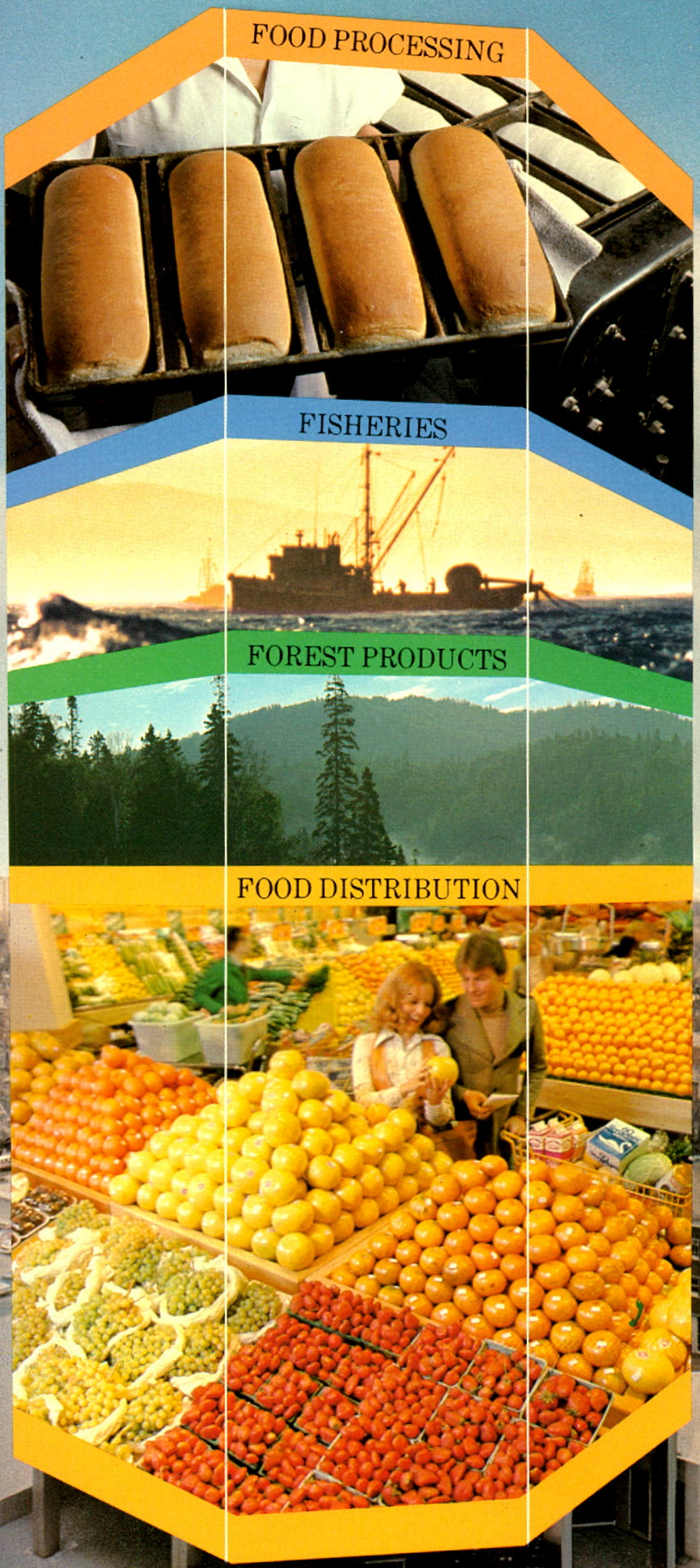
1978 was a gratifying year for the food distribution operations of our 87% owned subsidiary Loblaw Companies Limited. Sales and earnings continued to improve, the program of renovation and expansion of facilities continued on target and the financial position was strengthened. Sales were $4.25 billion as compared to $3.74 billion in 1977, an increase of 13.7%. Operating income improved 26.0% to $59.6 million or 1.4% of sales (1.3% in 1977). Net earnings rose to $25.6 million in 1978 from $18.4 million in 1977 (to 72¢ from 54¢ per common share). Extraordinary items of $6.9 million in 1978 and $5.2 million in 1977 are comprised almost entirely of income tax recoveries. Of great value in the future is the Company's effective interest in tax losses. These currently amount to approximately $90 million.

Eastern Canadian sales increased 11.2% to $1.65 billion. The retail operations of Loblaws and Zehrmart in Ontario maintained their position of prominence, while wholesalers National Grocers in Ontario and Atlantic Wholesalers in the Maritimes recorded satisfactory progress. The capital program in 1978 included the opening of 22 new or enlarged corporate stores and a 97,000 square foot warehouse in Fredericton.

Western sales of $1.17 billion for Kelly, Douglas & Company, Limited reflected an increase of 14.0% over 1977 while earnings before extraordinary items improved 10.8% to $10.6 million. During the year the division acquired a large wholesaling operation in New Mexico and sold its drug distribution operations in western Canada.

Sales of the United States operations totalled U.S. $1.22 billion. National Tea Co.'s sales increased 9.9% to U.S. $919 million while net earnings improved to U.S. $12.1 million from U.S. $11.1 million. Peter J. Schmitt's operations in Western New York and Pennsylvania recorded a marginal increase in sales to U.S. $297 million in a year of realignment to concentrate more fully on wholesaling activities.

WESTON TODAY



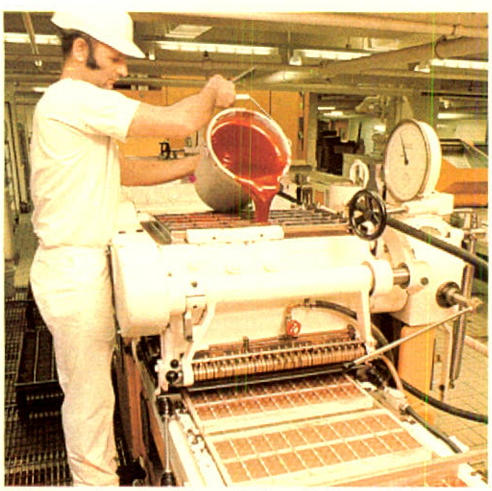
George Weston Limited is a broadly-based Canadian business with proud origins in the food industry and with opportunities for balanced growth through the development of its diverse operations.

The illustration depicts the current proportionate share of capital employed and earnings of each of the four divisions of Weston.

WESTON TODAY

Weston capital is also reinvested in new vessels to expand the fishing fleet of B.C. Packers.

Engineering services are provided to assist in improving production processes and facilites.



The modernization of chocolate-making equipment at Neilson is an example of capital allocation for Weston growth.

Weston today is a broadly-based Canadian business with proud origins in the food industry and with opportunities for balanced growth through the development of its diverse operations. From a leading position in food processing, based on product lines which are market leaders in Canada, our business has developed extensive interests in food distribution in North America, where regional markets provide continual opportunities for growth and expansion. Our fisheries operations are a special aspect of our food business related to an important Canadian resource. Our forest products business also involves the harvesting, utilization and regeneration of a renewable Canadian resource. The latter two businesses, based on growing natural resource values and productivity, complement the major part of our business.

The proportionate share of earnings and capital employed currently in each of the four divisions of Weston is represented pictorially in the photo-montage superimposed on our headquarters building profile. Of capital employed now at the level of some 900 million dollars, just over 20% is invested in the food processing sector, whereas some 15% is invested in each of our fisheries and forest products businesses. Just under 50% is deployed in wholesale and retail food distribution operations.

The respective contributions to earnings may vary from year to year in accordance with market and investment growth and competitive levels. The task of Weston's management, however, is to guide the reinvestment of these earnings, and to distribute capital resources as well as other management resources into those sectors of our business, and of the economy, where the greatest long-term growth may be expected. Our objective is to provide the best overall return for our Company and for our shareholders' capital which will be consistent with balanced growth of quality earnings.

Weston operates under a highly decentralized management philosphy within which subsidiary companies are managed autonomously by men and women highly experienced in their respective industries. This includes both public companies, in some cases with substantial minority interests, and private companies wholly-owned by Weston. Similar or complementary businesses (the two fishing companies, the food processing operations) are grouped as divisions. At the corporate level the Company has a small professional staff which assists in the strategic analysis of capital investment and management resource decisions, is instrumental in the communication of management goals and provides services in specialized areas to the operating divisions.

Weston research plays a key role in the development of new products and the maintenance of Weston quality.

Employee benefit, insurance and legal assistance as well as services in purchasing and distribution are also provided.

Centralized foreign exchange operations are an integral aspect of financial management services at 'Weston Today'.

Weston's central research laboratory employs highly trained personnel and the most advanced equipment to conduct basic research in the biochemical and physical sciences. Weston research is conducted by subsidiaries as well as at the new central facility, and plays a key role in both quality assurance and product development for Weston businesses. Engineering services are provided to operating subsidiaries by the corporate engineering group, who assist engineers at the plant level in the improvement of production processes and physical facilities. Both research and engineering are essential in establishing the viability of new products and processes.

Engineering services are particularly appropriate in connection with the construction of new facilities and acquisition of new equipment, which together constitute the core of the group's fixed asset investment program. Capital investment, paid for largely by the reinvestment of earnings, is central to the maintenance, regeneration, and growth of Weston's business. The allocation of capital resources is accomplished by a thorough and vigorous review of capital investment needs and opportunities at all levels of the group.

The corporate financial group is responsible for securing in the external market the capital resources required to maintain and increase this investment, as well as servicing other financial needs and obligations of the Company and its subsidiaries. This is accomplished through the maintenance of highly sophisticated centralized day-to-day cash management operations.

Other corporate services at Weston available to the operating units include insurance, law, tax counseling, financial management and data processing, the assistance of commodity and materials purchasing specialists, and the advice of experts in good manufacturing practices and in packaging, plant sanitation and other government regulated activities.

Under this small but highly responsive corporate staff of 60 people are the nearly 60,000 men and women working directly for the four Weston divisions, described in the following pages. It is their teamwork and dedicated effort which is fundamental to the vitality and strength of Weston.


FRESH
Weston
BAKED FOODS

FOOD PROCESSING

The Food Processing Division is composed of four segments: Bakery and Flour Milling, Biscuit and Confectionery, Chocolate and Dairy, and Food Specialties. It provides a wide variety of food products and ingredients to consumers and to other processors throughout Canada and in many regions of the United States. Approximately 9,700 people are employed in the Division and annual wages and benefits total over $141 million. Capital employed amounts to some $191 million or 21% of the Weston total.

BAKERY AND FLOUR MILLING
Bakers in Canada since 1882

Weston Bakeries, founded with the establishment of a small bakery in Toronto in 1882, has developed into a chain of major bakeries extending across Canada with two supporting flour mills. Bakery production of some 400 million pounds annually, augmented by purchases of complementary items, is distributed to market areas reaching over 90% of Canada's population. The product lines are quite varied, including many brands and types of bread, rolls, pies, cakes and novelty items to satisfy the tastes of Canada's richly varied ethnic groups. The bakery operations provide employment for over 3,500 persons with annual payrolls and benefits of some $54 million.

BISCUIT AND CONFECTIONERY
Prominent in Canada and the United States

The second product line of the Weston organization began in 1911 in Toronto and has grown to a position of prominence in the biscuit and confectionery fields in both Canada and the United States, with well integrated operations centered in Toronto and in Richmond, Virginia. There are three plants in Canada and four in the United States supplying an extremely wide variety of crackers, biscuits, wafers and sugar candy under the McCormick's, Paulin's and Weston labels throughout Canada and FFV (Famous Foods of Virginia) in the United States. Annual payroll and benefits exceed $50 million and there are approximately 3,300 employees.

CHOCOLATE AND DAIRY
Leading candy bar maker in Canada

The Neilson operation commenced in 1893 in Toronto and has become most prominent candy bar maker and a leader in the chocolate and ice cream businesses in Canada. Its product line includes a wide range of traditional and contemporary chocolate and chocolate flavoured confectionery, ice cream and ice cream novelties and ingredients and coatings for the ice cream, confectionery and baking industries. Dairy operations conducted by Donlands Dairy and Clark Dairy provide milk and dairy products to residents of Ontario. The division employs about 1,700 full and part-time employees and has annual payrolls and benefits of some $24 million.

FOOD SPECIALTIES
Ingredients for the food industry

Westcane Sugar operates a refinery constructed in 1972 at Oshawa, Ontario which provides sugar in both liquid and crystal form to food and beverage processors as well as to the Weston food processing operations and packaged sugar for distribution through the Weston food distribution division. A wide range of ingredients for the bakery, confection and dairy industries is produced by the Bowes group, acquired in 1971. Frozen concentrates of citrus products are also processed and packaged by the food specialty group for distribution throughout Canada. In aggregate, Food Specialties operations provide 1,200 full and part-time jobs and an annual payroll and benefits of over $13 million.

FISHERIES

The Fisheries Division is comprised of two major segments – British Columbia Packers Limited operating on the Pacific Coast and Connors Bros. Limited operating on the Atlantic Coast – supplying the markets of Canada, United States and many other areas of the world with top quality sea foods. Some 7,700 employees receive approximately $65 million in wages and salaries and benefits. Capital employed in the division amounts to $134 million or 15% of Weston total investment.

B. C. PACKERS
From Ocean to Shelf

B.C. Packers originated in 1870 when the first salmon cannery was opened on the banks of the Fraser River near New Westminster, B.C. It now operates a large fleet of fishing and packing vessels and a number of processing plants located along the west coast of Canada and the United States. In addition the company purchases from over 4,000 independent fishermen over $90 million in value of fish annually.

From the original dependence on salmon the company has developed markets for and processes many other species of fish, including herring, halibut, groundfish and shellfish. This has contributed to a more balanced utilization of resources and to steadier employment. In 1978 about $47 million in wages and benefits was provided to some 4,300 employees. Its products now include a wide assortment of fresh, frozen and canned fish and fish roe as well as prepared foods and industrial fish meal and oils. Its markets extend to some 40 countries in the world.

CONNORS BROS.
Top producers of Sardines

Connors Bros. began in 1893 as a small cannery at Black's Harbour, N. B. and has become the largest producer of sardines in North America and an important processor of other Atlantic seafoods. It continues to be headquartered at Black's Harbour, where its very modern and largest processing facility is located, and operates six other freezing and canning plants in the Maritimes. Connors processes a wide variety of fish in fresh, frozen, salted and canned forms, including more recently snack foods, as well as industrial fish meal and oils. In addition to the home market, its very large export sales are directed to the United States, the West Indies, Europe and many other parts of the world. Employment is provided for 3,400 people with annual payrolls and benefits of over $18 million.

FOREST PRODUCTS

E. B. EDDY FOREST PRODUCTS LTD.
Markets primarily in Canada and the United States

The Forest Products Division operated by E. B. Eddy Forest Products Ltd. and headquartered in Ottawa harvests large tracts of woodland in Northern Ontario and Quebec, and markets primarily in Canada and the United States pulp, paper, paper products and wood products. Its original operations began in 1851 for the production of matches, wooden ware and paper products by The E. B. Eddy Company – sixteen years before the confederation of Canada. The match business was sold in 1928 and production facilities now include a major kraft pulp mill and paper mill at Espanola, Ontario, paper-making and paper converting equipment at Ottawa-Hull and a specialty paper mill at Brewer, Maine, as well as sawmills at Davidson, Quebec and Nairn Centre and Timmins in Ontario.

THE CANADIAN OPERATION
Major volume in fine and specialty papers

Eddy is the largest employer in Espanola and Nairn Centre and second only to the Federal government in the Ottawa-Hull region. The Canadian operations in total provide employment for approximately 4,500 persons and payrolls and benefits exceed $87 million. In the United States, Eastern Fine Paper employs over 400 with payrolls and benefits of about $7 million. Capital employed in the division is approximately $134 million or 15% of Weston investment.

Pulp capacity exceeds 240,000 tons per year, being somewhat less than the Eddy paper mill requirements, resulting in Eddy being a marginal net buyer of pulp. The largest volume of sales is in fine and specialty papers, which includes a large variety of grades for printing, writing, converting, packaging and wrapping. In the Canadian market, Eddy is a leader in several specific papers, such as continuous form paper, coffee filter paper and vegetable parchment. In the United States, Eastern Fine Paper specializes in particular grades of business and printing papers and coated release papers.

WHITE SWAN COMPANY
White Swan and Swan's Down bathroom and facial tissues widely accepted

White Swan Company, a division of Eddy, distributes a wide range of bathroom and facial tissue, paper towels and serviettes as well as waxed paper and aluminum foil for both the household and the industrial user. The White Swan and Swan's Down labels have become widely accepted across Canada, fully justifying the heavy expenditure in research and equipment made to develop these top quality products.

The wood products operations are geared primarily to produce dimension lumber from white pine, spruce and jackpine. Approximately two-thirds of the lumber is exported, the remainder being sold largely in Ontario. The by-product wood chips are processed into pulp in the Espanola pulp mill or sold to other mills for that purpose.

FOOD DISTRIBUTION

LOBLAW COMPANIES LIMITED
Two thirds Canadian one third United States sales. Wholesaling 55% of total sales

The Food Distribution Division operated by Loblaw Companies Limited is a leading distributor in Canada and the United States of food products through corporate, franchised and independent grocery outlets. Approximately two-thirds of its sales are in Canada and one-third in the United States. About two-thirds of Canadian sales are wholesale and one-third retail while United States sales are two-thirds retail and one-third wholesale. All of the Division's operations are related to food distribution. It employs approximately 19,600 persons full time and 15,700 part time and provides over $480 million in payroll and benefits. Capital employed in the division approximates $447 million, or 49% of total Weston investment.

EASTERN CANADIAN OPERATIONS

Loblaws Ontario, founded in 1921 and headquartered in Toronto, is a major food retailing organization serving most of the communities in Ontario. Ziggy's operates gourmet departments in a number of Loblaw stores and also several gourmet markets in the larger communities. Zehrmart, operating as Zehr's Markets and Gordon's Markets, serves central and southwestern Ontario. At the 1978 year end this retailing group had 241 supermarkets in operation. National Grocers, founded in 1921 and headquartered in Toronto, and Atlantic Wholesalers, founded in 1903 and operating from Sackville, N.B., provide wholesale food distribution services throughout Ontario and the Maritimes to over 8,000 independent and franchised stores.

WESTERN OPERATIONS

Kelly, Douglas & Company, Limited, headquartered in Vancouver, and subsidiary companies provide wholesale and retail distribution of food products throughout western Canada and in the southwestern United States. They employ in Canada 4,700 persons full time and 2,600 part time. Total payroll and benefits exceed $105 million. Wholesale operations are conducted in western Canada by W. H. Malkin Ltd., Western Grocers, Shelly Western and Dominion Fruit and in Colorado and New Mexico under Western Grocers, Inc. Retail operations are carried on through franchisees or directly under the names of Super Valu, Shop Easy, Econo-Mart, Loblaw and OK Economy.

UNITED STATES OPERATIONS

National Tea Co. and Peter J. Schmitt Co., Inc., headquartered in Chicago and Buffalo respectively, conduct food retailing and wholesaling operations in the United States. National Tea, founded in 1902, is a major retailing chain operating 214 supermarkets in 10 states through distribution facilities located in Indianapolis, Minneapolis, New Orleans and St. Louis. Schmitt conducts wholesaling operations, franchised retailing as Bells Markets and corporate store retailing under the Bells Markets and Loblaw names in western New York and Pennsylvania. The United States operations employ 7,000 people on a full-time basis and 5,000 part time with total payrolls and benefits in 1978 of $200 million.

PRINCIPAL OPERATIONS

FOOD PROCESSING

BAKERY & FLOUR MILLING

Weston Bakeries Limited
Lane's Bakeries Limited
Soo Line Mills (1969) Limited
McCarthy Milling Limited

Bakeries in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Essex, Kitchener, Toronto, Kingston, Kirkland Lake, Montreal and Moncton. Flour mills in Streetsville, Ontario and Winnipeg. Warehouses in principal cities of Canada.

Produces a wide variety of bread, rolls, cakes and other bakery products under national brand and private label for distribution to food stores and catering outlets in all provinces of Canada. Produces flour and mill feeds for internal use and domestic and export markets.

BISCUIT & CONFECTIONERY

InterBake Foods Limited
Weston Foods
McCormick's
Paulin's
Imperial Cone
Interbake Foods Inc. (U.S.)

Biscuit and confectionery plants in Winnipeg, London, Longueuil in Canada and Richmond, Va., Tacoma, Wash., North Sioux City, South Dakota and Battle Creek, Mich. in the United States. Sales and distribution centres or distributors in principal cities of Canada and United States.

Manufactures and distributes a broad range of sweet biscuits, crackers, ice cream cones and wafers, confections and candies throughout Canada and in the United States.

CHOCOLATE & DAIRY

William Neilson Ltd.
Donlands Dairy Co. Ltd.
Clark Dairy Limited

Chocolate production facilities and ice cream plant in Toronto. Dairies in Guelph, Ottawa and Toronto, Ontario.

Produces and distributes throughout Canada a wide range of chocolate bars and boxed chocolates, chocolate coatings, cocoa and specialty items. Also manufactures bulk and packaged ice cream and frozen novelties, and processes milk and associated products.

FOOD SPECIALTIES

Bowes Co. Ltd.
Westcane Sugar Limited
Niagara Food Products Company Ltd.

Manufacturing and processing plants in Toronto, Hamilton, Montreal, and Colborne, Ontario. Warehouses in principal Canadian cities. Sugar refinery and warehouse in Oshawa, Ontario. Citrus products processing plant in Stoney Creek, Ontario.

Manufactures a variety of ingredients and products for the baking, confection, dairy and fountain industries. Packages and distributes a full line of dried and glacé fruits, nuts, cereals, fruits, vegetables and health foods. Produces liquid bulk and granulated bulk and packaged white sugars and frozen citrus products.

FISHERIES

British Columbia Packers Limited
Nelson Bros. Fisheries Limited
Rupert's Certi-Fresh Foods, Inc.
Nelbro Packing Company
Coast Oyster Company
Connors Bros., Limited
H. W. Welch, Limited
Lewis Connors & Sons Limited

British Columbia Packers Limited has extensive canning, freezing and processing facilities on the west coast of Canada and subsidiary operations in Alaska, Washington and California. Connors has similar facilities in the Bay of Fundy area including a can manufacturing plant.

The group is a major supplier of Pacific coast salmon and a wide variety of fresh, frozen, canned and prepared seafoods, as well as fish meal and oil. Connors group is Canada's leading packer of sardines and a large processor of Atlantic Ocean seafoods and fish products.

FOREST PRODUCTS

Eddy Paper Company Limited
E. B. Eddy Forest Products Ltd.
Rudolph McChesney Lumber Company Limited
Eastern Fine Paper, Inc. (U.S.)

Extensive timber limits and wood harvesting facilities in Ontario and Quebec. Pulp mill in Espanola, Ontario and paper mills in Espanola and Ottawa, Ontario, and in Hull, Quebec and Brewer, Maine. Sawmills in Davidson, Quebec and Nairn Centre and Timmins, Ontario.

Manufactures and distributes a wide variety of fine and specialty papers for printing, writing, converting and packaging; bleached kraft pulp; spruce and white pine lumber and White Swan household and industrial sanitary paper products.

FOOD DISTRIBUTION

Loblaw Companies Limited
Intersave Buying & Merchandising Services
Foodwide of Canada (1977) Ltd.
Loblaws Limited
Loblaws Ontario
Atlantic Wholesalers
National Grocers
Zehrmart
National Tea Co. (U.S.)
Peter J. Schmitt Co., Inc. (U.S.)
Kelly, Douglas & Company, Limited
SuperValu Stores
Foremost Foods Ltd.
W. H. Malkin Ltd.
Westfair Foods Ltd.
Western Grocers
Dominion Fruit
O. K. Economy Stores
Shelly Western
Econo-Mart
Loblaw West
Western Grocers, Inc. (U.S.)

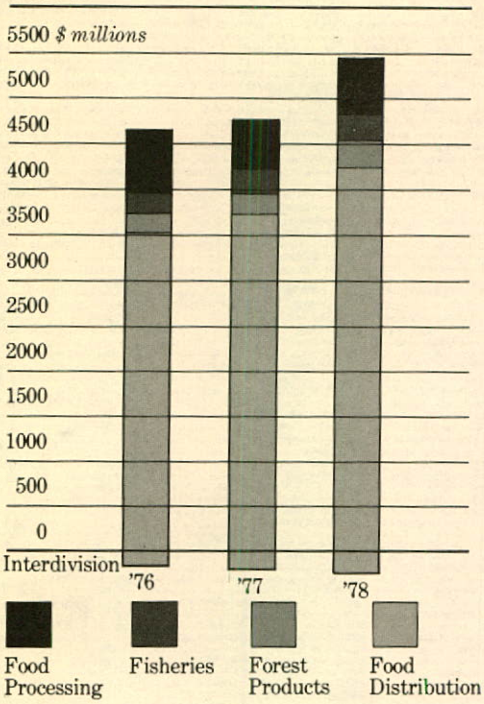
Warehouses in strategic centres and approximately 350 supermarkets across Canada and nearly 260 supermarkets located primarily in central and southern United States with warehouses in major centres.

Wholesale and retail marketing of food and other products throughout Canada and in central and southern United States.

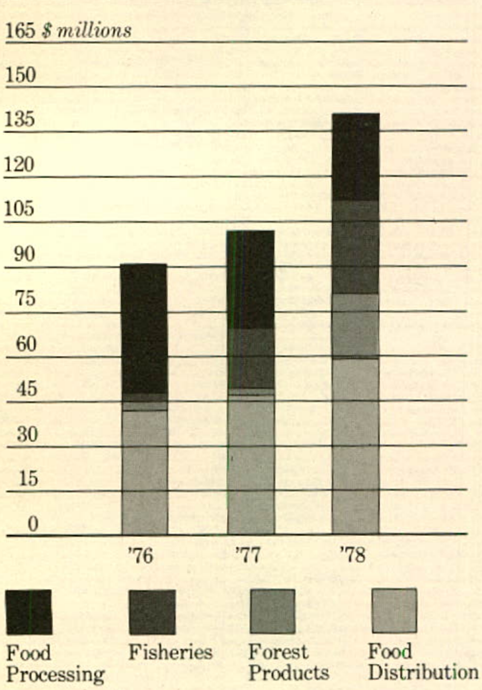
FINANCIAL REVIEW

SUMMARY OF 1978 RESULTS

SALES



OPERATING INCOME



In the following review we present some of the more significant elements of the 1978 operating and financial results in both graphic and commentary form.

SALES

Net sales (excluding interdivision sales) in 1978 totalled $5.24 billion, an increase of 14.1% or $648 million over 1977. Individually the divisions showed increases ranging from 11% to 24%. Total sales including interdivision were $5.44 billion as compared to $4.77 billion in 1977.

OPERATING INCOME

In total, operating income improved by 38.6% to $141.3 million. While there was little change in Food Processing, the remaining three divisions showed substantial improvement. The short term effects of extensive reorganization caused the Canadian biscuit operations to reduce the profitability of the Food Processing Division. This was offset by improved performance in the bakery and the United States biscuit operations. Fisheries enjoyed a significant gain over the 1977 banner year while Forest Products with firmer markets moved out of the doldrums of the past several years. Food Distribution experienced encouraging gains in almost all of its operating units.

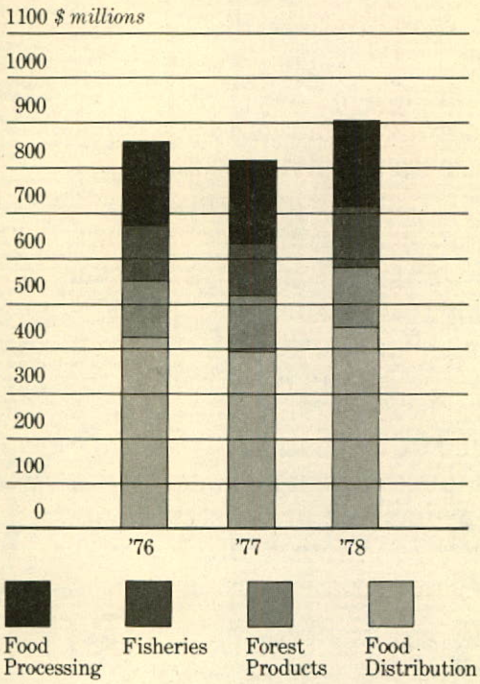
CAPITAL EMPLOYED

Capital employed is a measure of the net investment in the operating divisions of the Company. It is comprised of total assets less current non-interest bearing liabilities. For the Company as a whole capital employed increased in 1978 by 11% to $906 million from $816 million. At year end 49% or $447 million was deployed in food distribution, 21% or $191 million in food processing, 15% or $134 million in fisheries and 15% or $134 million in forest products division. Capital employed in food processing increased 4% , fisheries 20%, forest products 8% and food distribution approximatel y 13% during the year.

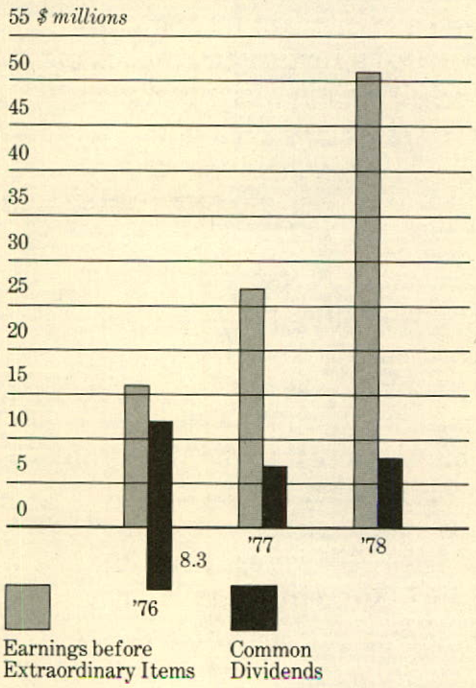
RETURN ON AVERAGE CAPITAL EMPLOYED

A significant measure of performance and utilization of capital is the ratio of operating income to capital employed. Substantial improvement is noted in the consolidated return on average capital employed in 1978 – to 16.4% from 12.2%. Three of the four divisions increased their return – Fisheries to 24.8% from 18.1%, Forest Products to 17.2% from 1.3% and Food Distribution to 14.1% from 11.5%, while Food Processing declined to 15.4% from 17.3%.

CAPITAL EMPLOYED



EARNINGS & DIVIDENDS



EARNINGS AND DIVIDENDS

Earnings before extraordinary items increased 84.2% to $50.6 million from $27.5 million in 1977 and a loss of $8.3 million in 1978. On a per common share basis these amounted to $4.06 in 1978, $2.36 in 1977 and ($.86) in 1976. Extraordinary items in 1978 of $6.7 million are comprised solely of income tax reductions realized on application of prior years' losses. The Company's effective interest in tax losses that may be applied to future income is approximately $92 million. Consolidated net earnings for the year of $57.3 million ($4.66 per share) are the highest in the Company's history.

Dividends declared in 1978 on the common shares amounted to $7.9 million as compared to $6.6 million in 1977. The quarterly dividend was improved as earnings improved following the heavy losses of 1976. In 1978 the quarterly rates declared by quarter were 15¢, 18¢, 18¢ and 21¢ for the first through fourth quarters or total of 72¢ per common share for the year. Preferred dividends increased from $1.1 million to $5.7 million primarily by reason of the dividend requirements of the second preferred shares issued to replace debt.

CASH FLOW FROM OPERATIONS

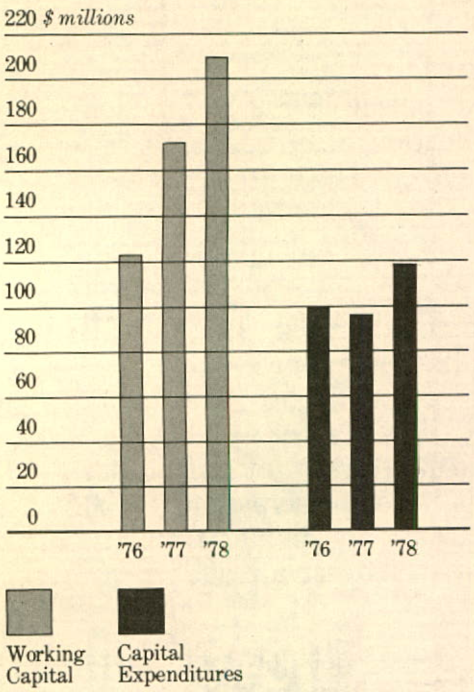
There has been a very significant increase in cash flow from operations over the past three years. From $75.7 million in 1976 it has progressed to $95.4 million in 1977 to $135.0 million in 1978. The 1978 increase of $39.6 million is due primarily to the $25.0 million improvement in earnings before minority interest. On a per share basis cash flow from operations was $12.25 in 1978 compared with $8.66 in 1977 and $6.87 in 1976.

WORKING CAPITAL

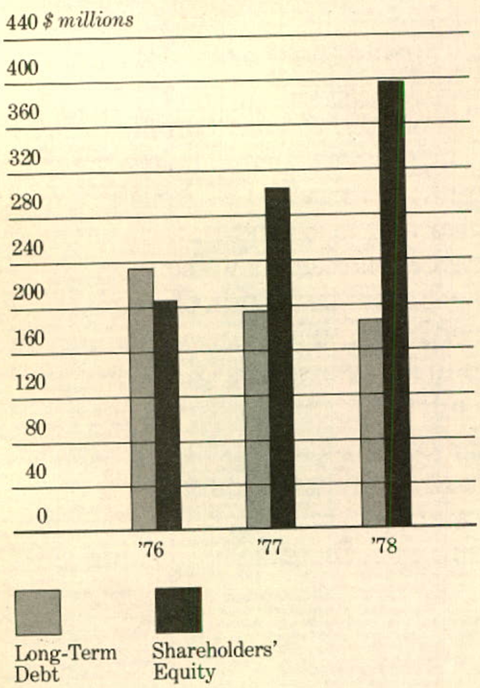
Working capital improved significantly during the year by $34.4 million following the substantial increase in the previous year of $55.0 million. At year end, working capital amounted to $210.3 million. Among the components of working capital, short term indebtedness was reduced to $132.2 million at year end as compared with $140.7 million in 1977 and $220.5 million at year end 1976. The major sources of working capital in the year were the cash flow from operations of $135.0 million and proceeds from issue of preferred shares to a Canadian chartered bank of $50.0 million. New debt financing sourced an additional $18.9 million while proceeds from sale of fixed assets amounted to $19.3 million.

These funds were applied to the purchase of fixed assets $119.1 million, investments and sundry items $19.5 million, reduction of long-term debt $40.6 million, dividends of $13.6 million and minor amounts for other purposes, resulting in a net increase in working capital of $34.4 million.

WORKING CAPITAL and CAPITAL EXPENDITURES



LONG-TERM DEBT and SHAREHOLDERS' EQUITY



CAPITAL EXPENDITURES

Capital additions in the year were a record $119.1 million compared to $96.2 million in the previous year. Expenditures by division were: Food Processing $13.0 million, Fisheries $11.0 million, Forest Products $15.2 million and Food Distribution $79.9 million. Included in these amounts are a number of expenditures related to major projects in addition to the general refurbishment and replacement program. At Neilson a very extensive expansion and modernization program to renew its present facilities over a three year period was announced in the latter part of the year. At Bowes a start was made on a $3.2 million renewal and expansion plan. Connors expended $1.5 million of an estimated total of $1.8 million for a can and cover plant. Eddy commenced the $14.7 million second stage of its new oxygen bleaching process, expending in 1978 approximately $2.1 million. The 1978 capital expenditure by the Food Distribution Division of $79.9 million was the largest annual expenditure in its history, with $52.5 million spent in the Eastern Canadian and the Western operations and $27.4 million in the United States. A total of 42 new or enlarged corporate stores were opened during the year.

LONG-TERM DEBT AND SHAREHOLDERS' EQUITY

Long-term debt net of current maturities was reduced by $21.8 million to $173.9 million. This decrease follows that of $37.0 million in 1977 and $37.6 million in 1976. By this reduction and a restructuring of the remaining debt further progress was made in achieving low maturities within the next five years and a levelling of later maturities. On October 31, 1978 the Company issued a further $50 million of term preferred shares. Of the proceeds, $30 million was invested in similar shares of Loblaws Limited (to be exchanged for similar shares of Loblaw Companies Limited). All proceeds were used to retire debt. This issue brought the total of this form of stock to $125 million.

CORPORATE CHANGES

At the beginning of the year, the Company acquired the assets on winding-up of Bowes Company Limited and Donlands Dairy Limited and their respective operating subsidiaries and is continuing those operations under similar names. In May 1978 Kelly, Douglas & Company, Limited sold all of its interest in the shares of its drug distribution companies – Isaacs Pharmacy Limited and the Tamblyn group in western Canada. Subsequent to the year end all of the issued shares of Dickson's Food Services Ltd. were sold by Kelly, Douglas, thereby completing its program of divesting unrelated businesses.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Year ended December 31, 1978

CONSOLIDATED STATEMENT OF EARNINGS

(in thousands of dollars)	1978	*1977*
SALES AND OTHER INCOME		
Sales	$5,237,808	*$4,590,090*
Investment income	4,662	*5,420*
	5,242,470	*4,595,510*
OPERATING EXPENSES		
Cost of sales, selling and administrative expenses before the following items	4,982,933	*4,385,081*
Net rentals on long-term leases	61,306	*58,364*
Depreciation	56,907	*50,101*
	5,101,146	*4,493,546*
OPERATING INCOME	141,324	*101,964*
Interest on long-term debt	18,301	*18,819*
Other interest expense	13,589	*18,319*
	31,890	*37,138*
Earnings before income taxes	109,434	*64,826*
Income taxes *(note 2)*	48,370	*28,764*
Earnings before minority interest	61,064	*36,062*
Minority interest	10,449	*8,585*
EARNINGS BEFORE EXTRAORDINARY ITEMS	50,615	*27,477*
Extraordinary items *(note 3)*	6,669	*4,568*
NET EARNINGS FOR THE YEAR	$ 57,284	*$ 32,045*
PER COMMON SHARE		
Earnings before extraordinary items	$ 4.06	*$ 2.36*
Extraordinary items	$ .60	*$ .41*
Net earnings for the year	$ 4.66	*$ 2.77*

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1978	*1977*
RETAINED EARNINGS AT BEGINNING OF YEAR	$ 187,830	*$ 163,539*
Net earnings for the year	57,284	*32,045*
	245,114	*195,584*
Dividends declared		
Preferred shares	5,664	*1,142*
Common shares	7,934	*6,612*
	13,598	*7,754*
RETAINED EARNINGS AT END OF YEAR *(note 12)*	$ 231,516	*$ 187,830*

George Weston Limited
(Incorporated under the laws of Canada)

CONSOLIDATED BALANCE SHEET

As at December 31, 1978

(in thousands of dollars)	1978	*1977*
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 10,556	*$ 8,712*
Accounts receivable *(note 4)*	182,186	*159,793*
Properties held for sale, at the lower of cost and net realizable value	17,543	*18,873*
Inventories *(note 5)*	507,261	*455,203*
Prepaid expenses	14,667	*14,148*
	732,213	*656,729*
INVESTMENTS *(note 6)*	55,596	*35,890*
FIXED ASSETS, at cost		
Land	30,511	*29,142*
Buildings	150,514	*147,580*
Equipment and fixtures	648,943	*589,723*
Leasehold improvements	100,403	*82,465*
	930,371	*848,910*
Accumulated depreciation	450,096	*411,230*
	480,275	*437,680*
GOODWILL arising on consolidation of subsidiaries, less amortization	13,262	*14,127*
DEFERRED CHARGES	740	*1,580*
	$1,282,086	*$1,146,006*

Approved by the Board

W. Galen Weston, Director
Mark Hoffman, Director

		1978	*1977*
LIABILITIES	CURRENT LIABILITIES		
	Bank advances and notes payable *(note 7)*	$ 132,246	*$ 140,684*
	Accounts payable and accrued liabilities *(note 8)*	341,568	*304,540*
	Taxes payable	32,257	*23,723*
	Dividends payable	2,314	*1,653*
	Long-term debt payable within one year *(note 9)*	13,561	*10,276*
		521,946	*480,876*
	LONG-TERM DEBT *(note 9)*	173,897	*195,663*
	OTHER LIABILITIES *(note 10)*	17,464	*14,872*
	DEFERRED INCOME TAXES	46,672	*33,698*
	DEFERRED REAL ESTATE INCOME	19,151	*20,086*
		779,130	*745,195*
	MINORITY INTEREST IN SUBSIDIARIES	104,197	*95,610*
SHAREHOLDERS' EQUITY	Capital stock *(note 11)*	167,243	*117,371*
	Retained earnings	231,516	*187,830*
		398,759	*305,201*
		$1,282,086	*$1,146,006*

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1978

(in thousands of dollars)		1978	*1977*
SOURCE OF WORKING CAPITAL	Operations		
	Earnings before minority interest	$ 61,064	*$ 36,062*
	Depreciation	56,907	*50,101*
	Income taxes not requiring cash	18,241	*11,675*
	Other	(1,259)	*(2,445)*
	Cash flow from operations	134,953	*95,393*
	Financing		
	Proceeds from issue of preferred shares	54,337	*75,000*
	Increase in long-term debt	18,862	*86,486*
		73,199	*161,486*
	Other items		
	Proceeds from sale of subsidiary companies and investments (net of notes receivable and subsidiaries' working capital)	3,869	*7,559*
	Proceeds from sale of fixed assets	19,337	*35,349*
		23,206	*42,908*
	Total sources of working capital	231,358	*299,787*
USE OF WORKING CAPITAL	Extraordinary losses from store operations, leasehold terminations and related costs during close-down periods		*8,319*
	Reinvestment		
	Purchase of fixed assets	119,128	*96,161*
	Net increase in investments and sundry items	19,468	*3,626*
		138,596	*99,787*
	Financing		
	Reduction in long-term debt	40,576	*123,478*
	Purchase of minority interest	926	*2,147*
		41,502	*125,625*
	Dividends		
	To shareholders	13,598	*7,754*
	To minority shareholders in subsidiary companies	3,248	*3,281*
		16,846	*11,035*
	Total uses of working capital	196,944	*244,766*
	INCREASE IN WORKING CAPITAL	34,414	*55,021*
	Working capital at beginning of year	175,853	*120,832*
	WORKING CAPITAL AT END OF YEAR	$210,267	*$175,853*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

George Weston Limited
December 31, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. The effective interest of George Weston Limited in the equity share capital of principal subsidiaries which are not substantially 100% owned by the George Weston group is as follows at December 31, 1978:

British Columbia Packers Limited	83%
Loblaw Companies Limited	87%
Kelly, Douglas & Company, Limited	73%
Loblaws Limited	87%
National Tea Co.	73%

(b) Amortization of goodwill arising on consolidation of subsidiaries

The Company follows the policy of amortizing, over periods not exceeding twenty years, the net difference between cost of the investments in subsidiaries and the estimated fair value of their net assets at the dates of acquisition. Total amortization for 1978 is $914,000 (1977–$1,291,000) and is included in "Cost of sales, selling and administrative expenses".

(c) Inventories

Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. Other inventories are stated principally at the lower of cost and net realizable value.

(d) Translation of foreign currencies

All U.S. balances have been translated at a rate approximating the current rate at each year-end. The net difference on the translation of the Company's equity in U.S. subsidiaries and the long-term debt payable in U.S. funds by its Canadian subsidiaries is included in "Fixed assets" on the balance sheet as a decrease of $6,677,000 in 1978 and an increase of $1,919,000 in 1977.

(e) Fixed assets

Depreciation is recorded principally on a straight-line basis to amortize the cost of fixed assets over their estimated useful lives. The depreciation rates are substantially as follows:

Buildings	2½ to 5%
Automotive equipment	15 to 25%
Fishing vessels	6⅔ to 7½%
Equipment and fixtures	5 to 20%
Leasehold improvements	Lesser of useful life and term of lease

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in income, except that U.S. retail subsidiaries apply the gain or loss on normal dispositions of equipment and fixtures to accumulated depreciation.

(f) Deferred real estate income

The profits realized on the sale and leaseback of property have been deferred and are being amortized over various periods, mainly twenty-five years, according to the terms of the related leases.

2. INCOME TAXES

(a) A summary of accounting losses, the tax effects of which have not been recorded in the accounts, is as follows at December 31, 1978:

	Latest year available for deduction	United States subsidiaries	Canadian subsidiaries
		(in thousands of dollars)	
Losses which may be carried forward on a tax filing basis:	1979	$ 1,459	$ 4,201
	1980	8,709	11,297
	1981		1,545
	1982		3,945
	1983	49,290	2,119
	1984	838	
	1985	13,393	
		73,689	23,107
Expenses recorded for book purposes not yet claimed for tax purposes		19,909	172
Accounting losses, the tax effects of which have not been recognized in the financial statements		$93,598	$23,279
The Company's effective interest therein		$71,583	$20,565

(b) At December 31, 1978 United States subsidiaries have unused investment tax credits of $5,679,000 expiring no later than 1985. The Company's effective interest in these credits amounts to $4,301,000.

(c) Income tax expense includes deferred taxes of $8,897,000 (1977–$5,826,000).

3. EXTRAORDINARY ITEMS

	1978	*1977*
	(in thousands of dollars)	
Income tax reductions realized on application of prior years' losses	$6,669	*$4,584*
Gain on sale of investments and subsidiaries' shares		*4,387*
Discontinued operations' costs during close-down period (net of tax recoveries in 1977 of $5,025,000)		*(4,403)*
	$6,669	*$4,568*

4. ACCOUNTS RECEIVABLE

	1978	*1977*
	(in thousands of dollars)	
Trade	$148,868	*$141,534*
Loans, advances and non-current receivables due within one year	2,004	*2,545*
Other	31,314	*15,714*
	$182,186	*$159,793*

5. INVENTORIES, by division

	1978			1977
	Raw materials and supplies	Finished goods	Total	Total
	(in thousands of dollars)			
Food distribution	$ 3,817	$289,858	$293,675	*$273,375*
Food processing	37,422	41,571	78,993	*70,187*
Fisheries	12,394	77,171	89,565	*71,461*
Forest products	23,284	21,744	45,028	*40,180*
	$76,917	$430,344	$507,261	*$455,203*

6. INVESTMENTS, at cost

	1978	1977
	(in thousands of dollars)	
Properties held for development or sale	$21,004	
Secured loans and advances	16,917	*$12,502*
Non-current receivables	11,739	*18,887*
Sundry investments	5,936	*4,501*
	$55,596	*$35,890*

Secured loans and advances include $3,520,000 (1977–$4,521,000) owing by directors and officers of the Company and its subsidiaries arising out of the purchase of preferred shares of the Company through a trustee as part of the Company's incentive plan. These advances are secured by the shares purchased.

7. BANK ADVANCES AND NOTES PAYABLE

Current bank indebtedness of $10,572,000 and a term bank loan of $8,000,000 of certain subsidiary companies are secured by a pledge of accounts receivable, inventories or fixed assets of these companies.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	1978	1977
	(in thousands of dollars)	
Trade	$208,930	*$199,806*
Other	132,638	*104,734*
	$341,568	*$304,540*

9. LONG-TERM DEBT

	Maturity	Payable within one year	Total 1978	Total 1977
		(in thousands of dollars)		
George Weston Limited				
Sinking Fund Debentures				
5¼% Series C	1982	$ 121	$ 5,596	*$ 6,407*
5½% Series D	1983	126	6,126	*6,752*
6¾% Series E	1986	109	4,359	*4,927*
6¾% Series F	1987	412	17,412	*18,316*
Bank loan bearing interest at the London Interbank offered rate plus ⅞%	1988	706	13,490	*13,151*
		1,474	46,983	*49,553*
British Columbia Packers Limited and subsidiaries				
Bank term loan bearing interest at ½% above the bank's prime rate (secured, note 7)	1982	2,000	8,000	*10,000*
First Mortgage Sinking Fund Bonds				
6½% Series B (U.S. $1,875,000)	1983	882	2,206	*2,394*
6½% Series C (U.S. $625,000)	1983	294	735	*798*
Other long-term debt	1985-1986	33	257	*266*
		3,209	11,198	*13,458*
Loblaw Companies Limited				
Bank loan bearing interest at 1¾% above the U.S. bank's prime rate, adjusted subsequent to year-end to 112½% of the U.S. bank's prime rate (U.S. $13,500,000)	1983	$ 882	$15,882	*$15,160*
Bank loan bearing interest at 1¾% above the U.S. bank's prime rate, adjusted subsequent to year-end to 112½% of the U.S. bank's prime rate (U.S. $13,875,000)	1984	883	16,324	*15,558*
Bank loan bearing interest at ½% above the bank's prime rate	1984		11,000	*17,500*
		1,765	43,206	*48,218*
Loblaws Limited				
Sinking Fund Debentures				
5¾% Series F	1981	327	3,127	*3,387*
6⅜% Series G	1991		4,769	*5,175*
6¾% Series H	1991	74	5,274	*5,474*
Mortgage payable	1994	25	668	*1,242*
		426	13,838	*15,278*
Kelly, Douglas & Company, Limited and subsidiaries				
Sinking Fund Debentures				
8⅜% 1973 Series	1993		11,100	*11,389*
Notes, mortgages and other long-term debt (including U.S. $2,563,000)	1979-1997	407	4,262	*3,509*
		407	15,362	*14,898*
National Tea Co. and subsidiaries				
Bank loans bearing interest at 120% of the U.S. bank's prime rate, adjusted subsequent to year-end to 112½% of the U.S. bank's prime rate (U.S. $10,000,000) and at the U.S. bank's prime rate (U.S. $5,000,000)	1984		17,647	*15,957*
3½% Subordinated Debentures (U.S. $2,313,000)	1980		2,721	*2,461*
Instalment mortgage notes (U.S. $1,930,000)	1979-1996	2,027	2,270	*2,931*
Notes and other long-term debt (U.S. $2,244,000)	1979-1980	2,266	2,640	*730*
		4,293	25,278	*22,079*
Westcane Sugar Limited				
9⅜% Sinking Fund Debentures	1978			*1,200*
9⅜% First Mortgage Sinking Fund Bonds	1993	267	8,767	*9,000*
		267	8,767	*10,200*
Other				
Bank loan bearing interest at 1% above the U.S. bank's prime rate (U.S. $7,825,000)	1980			*8,324*
Notes, mortgages and other long-term debt with a weighted average interest rate of 10.0% (including U.S. $4,532,000)	1979-1999	1,720	22,826	*23,931*
		1,720	22,826	*32,255*
		$13,561	187,458	*205,939*
Less payable within one year			13,561	*10,276*
Long-term debt			$173,897	*$195,663*

At March 16, 1979 the Canadian bank's prime rate was 12%, the U.S. bank's prime rate was 11¾% and the London Interbank offered rate was 11⅜%.

Principal payable in the next five years is:

1979	$13,561,000	1982	$24,710,000
1980	15,465,000	1983	34,811,000
1981	18,256,000		

10. OTHER LIABILITIES

	1978	1977
	(in thousands of dollars)	
Provision for future net obligations on closed operations	$ 8,058	*$ 6,973*
Deferred employee compensation	7,288	*6,516*
Provision for self-insurance	2,118	*1,383*
	$17,464	*$14,872*

11. CAPITAL STOCK

	Number of shares 1978	Number of shares 1977	Amount 1978	Amount 1977
			(in thousands of dollars)	
Preferred cumulative redeemable shares, par value $100 each, issuable in series				
Authorized	268,665	*310,040*		
Issued				
4½% First series, redeemable at a premium of 4% (note 15(d))	88,044	*90,839*	$ 8,804	*$ 9,083*
6% Second series, redeemable at a premium of 5%	74,938	*75,423*	7,494	*7,542*
6% Third series, redeemable at par after October 1, 1980, convertible into 5 common shares for each preferred share and $3.75	1,000	*2,000*	100	*200*
6% Fourth series, redeemable at par after October 1, 1980, convertible into 8 common shares for each preferred share and $12.00	625	*625*	63	*63*
6% Fifth series, redeemable at par after September 1, 1982, convertible into 5 common shares for each preferred share and $11.25		*20,000*		*2,000*
6% Eighth series, redeemable at par after January 27, 1985, convertible into the number of common shares obtained by dividing the aggregate par value of such preferred shares by $22.50		*20,375*		*2,038*
6% Ninth series, redeemable at par after December 3, 1986, convertible into 100 common shares for every 11 preferred shares	2,200	*2,200*	220	*220*
8% Tenth series, redeemable at par after March 16, 1988, convertible after certain vesting periods into the number of common shares obtained by dividing the aggregate par value of such preferred shares by $16.125	43,375		4,337	
	210,182	*211,462*	21,018	*21,146*

	Number of shares 1978	Number of shares 1977	Amount 1978	Amount 1977
			(in thousands of dollars)	
Second preferred cumulative redeemable and retractable shares, par value of $1 to $100 each, issuable in series (note 15(c))				
Authorized	10,000,000	*10,000,000*		
Issued				
Series A, par value of $100, redeemable and retractable on December 1, 1987, at par; annual dividend rate is one half average bank prime rate plus 1¼%	750,000	*750,000*	$ 75,000	*$ 75,000*
Series B, par value of $100, redeemable and retractable on December 1, 1990, at par; annual dividend rate is one half average bank prime rate plus ½% to November 30, 1981, ¾% thereafter to November 30, 1985 or ⅞% thereafter	500,000		50,000	
	1,250,000	*750,000*	146,018	*96,146*
Common shares, without par value				
Authorized	16,950,000	*16,950,000*		
Issued	11,019,357	*11,019,357*	21,225	*21,225*
			$167,243	*$117,371*

On March 16, 1978 the Company issued 43,375 8% Tenth series cumulative, redeemable preferred shares convertible after certain vesting periods into the number of common shares obtained by dividing the aggregate par value of such preferred shares by $16.125. On the same date, 1,000 Third series and all of the Fifth and Eighth series preferred shares were purchased for cancellation. After giving effect to the foregoing the Company has reserved 298,992 common shares for potential conversion of the preferred shares.

During the year 3,280 preferred shares (1977–3,646 shares) were purchased for cancellation at a cost of $201,000 (1977–$321,000).

On October 26, 1978 the Company issued 500,000 second preferred shares, designated as Series B, at a par value of $100 each for $50,000,000.

The second preferred shares Series A and B are retractable at par earlier than 1987 and 1990 respectively, only in the event of adverse change in the tax status of the dividends received. In the event of early retraction the holder will loan the Company funds sufficient to complete the retraction.

In 1978 an employee stock option plan was established under which 150,000 common shares have been set aside for options under terms of the plan. The following options which have been granted at the market price on the date of the grant are outstanding at December 31, 1978.

Number of employees	Number of shares	Exercise price per share	Option expiry date
28	122,450	$16.125	March 16, 1983
2	10,000	$19.875	September 15, 1983

The exercise of the conversion privileges and the stock options would not have a material effect on earnings per share.

12. RETAINED EARNINGS

The Trust Indentures securing the Company's sinking fund debentures contain provisions whereby certain tests must be met before the declaration of dividends. At December 31, 1978 a substantial portion of consolidated retained earnings is available for dividends under these tests.

13. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company and its subsidiaries have obligations under long-term leases for retail outlets, warehousing facilities, equipment and store fixtures. The aggregate rentals, exclusive of additional rents based on sales, realty taxes and other charges, under leases with an initial term greater than five years are as follows for each of the periods shown:

	Gross liability	Expected sublease income	Net liability
		(in thousands of dollars)	
For the year			
1979	$ 78,917	$19,675	$ 59,242
1980	75,563	17,819	57,744
1981	71,826	15,559	56,267
1982	67,528	13,651	53,877
1983	60,391	11,789	48,602
For the five years ending			
1988	226,605	41,351	185,254
1993	169,965	26,240	143,725
1998	94,132	18,657	75,475
2003	37,646	14,804	22,842
Thereafter to 2023	12,935	6,354	6,581
	$895,508	$185,899	$709,609

(b) Endorsements and guarantees amount to $82,714,000.

(c) The present value of the unfunded past service pension liability is estimated to be $43,000,000 at December 31, 1978 and is being amortized over varying periods not exceeding seventeen years.

14. OTHER INFORMATION

(a) The aggregate direct remuneration paid to directors and officers is as follows:

Number of directors	13 (including 1 former director)
Number of officers	17 (including 1 former officer)
Number of officers who are also directors	7

	Directors' fees	Other remuneration
Paid by the Company	Nil	$1,009,277
Paid by subsidiaries	Nil	663,265

(b) Sales, by division

	1978	*1977*
	(in millions of dollars)	
Food distribution	$4,246.6	*$3,735.4*
Food processing	610.1	*550.2*
Fisheries	308.3	*260.8*
Forest products	277.5	*223.7*
Interdivision	(204.7)	*(180.0)*
	$5,237.8	*$4,590.1*

(c) The Companies Act of British Columbia
These financial statements comply with the disclosure requirements of the act of incorporation (the Canada Corporations Act) and the securities legislation of certain provinces in Canada, but do not purport to comply with all disclosure requirements unique to the Companies Act of British Columbia.

(d) The prior year's comparative figures have been reclassified to conform with the current year's financial statement presentation.

15. SUBSEQUENT EVENTS

(a) By an agreement dated November 15, 1978, the Company's subsidiary Kelly, Douglas & Company, Limited agreed to sell its wholly-owned subsidiary Dickson's Food Services Ltd., effective March 22, 1979, for approximately $5,000,000 in excess of cost.

(b) In February, 1979 definitive agreements providing for the merger of Applebaums' Food Markets Inc., a retail supermarket chain operating stores in St. Paul, Minneapolis and Duluth, Minnesota, into a wholly-owned subsidiary of National Tea Co. were executed and delivered. The merger is subject to Applebaums' stockholders' approval, as well as the expiration of all necessary waiting periods associated with filings which were made with the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice. Upon the effectiveness of the merger, Applebaums' stockholders will receive $15.25 in cash for each share of its stock.

The merger agreement may be terminated if the merger does not become effective on or prior to June 30, 1979. Applebaums' has 1,236,100 shares of stock outstanding.

(c) On March 28, 1979 the Company announced that it intends to offer for 11,785,000 shares of Hudson's Bay Company at $40 per share to be paid to the extent of 25% to 40% by the issue of $20 par value second preferred shares Series C.

(d) The Company also announced on March 28, 1979 that it intends to call for redemption its outstanding 4½% First series preferred shares, upon successful completion of the offer for the Hudson's Bay Company shares.

AUDITORS' REPORT

To the Shareholders of George Weston Limited

We have examined the consolidated balance sheet of George Weston Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of George Weston Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.

Chartered Accountants

Toronto, Canada
March 16, 1979
(March 28, 1979 as to Note 15(c) and (d))

FIVE YEAR SUMMARY

	(in millions of dollars)	1978	*1977*	*1976*	*1975*	*1974*
SALES AND EARNINGS	Sales	5,238	*4,590*	*4,345*	*4,137*	*3,800*
	Operating Income	141	*102*	*91*	*112*	*146*
	Interest Expense	32	*37*	*45*	*40*	*45*
	Earnings (Loss) Before Extraordinary Items	51	*27*	*(8)*	*19*	*40*
	Net Earnings (Loss)	57	*32*	*(15)*	*16*	*42*
FINANCIAL POSITION	Current Assets	732	*657*	*713*	*712*	*784*
	Current Liabilities	522	*481*	*592*	*567*	*603*
	Working Capital	210	*176*	*121*	*145*	*181*
	Fixed Assets	480	*438*	*424*	*488*	*463*
	Long-Term Debt	174	*196*	*233*	*270*	*258*
	Shareholders' Equity	399	*305*	*206*	*234*	*230*
	Total Equity including Minority Interest	503	*401*	*298*	*343*	*370*
	Total Assets	1,282	*1,146*	*1,189*	*1,248*	*1,294*
CASH FLOW	Cash Flow from Operations	135	*95*	*76*	*89*	*104*
	Purchase of Fixed Assets	119	*96*	*100*	*97*	*116*
	Dividends-Common and Preferred	14	*8*	*13*	*15*	*14*
PER COMMON SHARE *(in dollars)*	Earnings (Loss) Before Extraordinary Items	4.06	*2.36*	*(.86)*	*1.60*	*3.55*
	Net Earnings (Loss)	4.66	*2.77*	*(1.44)*	*1.37*	*3.73*
	Dividends	.72	*.60*	*1.07*	*1.22*	*1.20*
	Cash Flow from Operations	12.25	*8.66*	*6.87*	*8.10*	*9.17*
	Book Value	22.94	*18.97*	*16.77*	*19.28*	*19.13*
	Market Value-High	23.38	*14.75*	*18.50*	*23.50*	*25.00*
	Low	13.13	*11.50*	*10.50*	*16.25*	*17.75*

DIRECTORS

W. Galen Weston†
Chairman and President
George Weston Limited
Chairman of the Board
and Chief Executive Officer
Loblaw Companies Limited

Richard J. Currie
Senior Vice President,
Food Distribution
George Weston Limited
President and Chief
Operating Officer
Loblaw Companies Limited

Mark Hoffman††
Senior Vice President
and Chief Financial Officer
George Weston Limited

George C. Metcalf†
Vice President
George Weston Limited
Vice Chairman of the Board
Loblaw Companies Limited

Richard I. Nelson
Chairman and Chief Executive Officer
British Columbia Packers Limited

David A. Nichol
Senior Vice President
George Weston Limited
President, Loblaws Ontario Division
Loblaws Limited

S. Simon Reisman††
Chairman
Reisman & Grandy Ltd.

Frank A. Riddell
Senior Vice President,
Food Processing
George Weston Limited
Chairman of the Board
Weston Bakeries Limited

John C. Scarth
President and Chief Executive Officer
E.B. Eddy Forest Products Ltd.

John D. Stevenson, Q.C.† ††
Partner,
Smith, Lyons, Torrance,
Stevenson & Mayer
Barristers and Solicitors

James A. Watson
(Former) ~~Chairman~~, National Tea Co.

Garry H. Weston
Chairman
Associated British Foods Limited

†Member Executive Committee
††Member Audit Committee

OFFICERS

W. Galen Weston
Chairman and President

Richard J. Currie
Senior Vice President,
Food Distribution

Mark Hoffman
Senior Vice President and
Chief Financial Officer

David A. Nichol
Senior Vice President

Frank A. Riddell
Senior Vice President,
Food Processing

George C. Metcalf
Vice President

William A. Sloan
Vice President, Finance

Kenneth H. Smith
Vice President and
Secretary

Ralph S. Barnes
Corporate Planning and
Development Officer

Ivan R. Franklin
Corporate Tax Officer

Kenneth L. Harlock
Controller

Ian M. Young
Treasurer

Terrence H. Wardrop
Strategic Planning Manager

James N. Bunsch
Assistant Treasurer

Stewart E. Green
Assistant Secretary

Charlotte Welch
Assistant Secretary

EXECUTIVE OFFICES
22 St. Clair Avenue East
Toronto, Ontario

STOCK LISTINGS
Toronto, Montreal and Vancouver
Stock Exchanges

TRANSFER AGENTS
National Trust Company, Limited
Toronto, Montreal, Winnipeg,
Edmonton and Vancouver.
The Detroit Bank and Trust Company,
Detroit, Michigan, U.S.A.

GENERAL COUNSEL
Smith, Lyons, Torrance,
Stevenson and Mayer

AUDITORS
Thorne Riddell & Co.
Toronto, Ontario

The colored stock used in this report
is Certificate Royale, manufactured
by Eastern Fine Paper, Inc., a
member of the Weston Group of
companies.