Notes to the Consolidated Financial Statements

December 31, 2009
($ millions except where otherwise indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars.

Basis of Consolidation

The consolidated financial statements include the accounts of George Weston Limited ("GWL") and its subsidiaries (collectively the "Company") with provision for minority interest. The Company's interest in the voting share capital of its subsidiaries is 100% except for Loblaw Companies Limited ("Loblaw"), which is 62.5% (2008 – 61.9%). In addition, the Company consolidates variable interest entities ("VIEs") pursuant to the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG 15"), that are subject to control by Loblaw on a basis other than through ownership of a majority of voting interest. AcG 15 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIEs' expected losses or that entitle it to receive a majority of the VIEs' expected residual returns or both. The Company has two reportable operating segments: Weston Foods and Loblaw.

Fiscal Year

The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. The years ended December 31, 2009 and December 31, 2008 contained 52 weeks and 53 weeks, respectively.

Revenue Recognition

Weston Foods recognizes sales upon delivery of its products to customers and acceptance of its products by customers net of provisions for returns, discounts and allowances. Loblaw sales include revenues, net of estimated returns, from customers through corporate stores operated by Loblaw and independent franchisee stores that are consolidated by Loblaw pursuant to AcG 15. In addition, sales include sales to and service fees from associated stores and independent account customers and franchised stores excluding VIE stores net of sales incentives offered by Loblaw. Loblaw recognizes revenue at the time the sale is made to its customers.

Net Earnings per Common Share

Basic net earnings per common share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted net earnings per common share is calculated using the treasury stock method and the if converted method. The treasury stock method assumes that all outstanding stock options with an exercise price below the average market price during the year are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year. Under the if converted method, diluted net earnings per common share also takes into consideration the dilutive effect of the conversion options on the Loblaw capital securities and a component of Loblaw's other liabilities, which are assumed to be converted using the market share price at the end of the year.

Cash and Cash Equivalents and Bank Indebtedness

Cash equivalents consist of highly liquid marketable investments with a maturity of 90 days or less. Cash equivalents are either designated as held-for-trading financial assets or classified as available-for-sale financial assets and the carrying value approximates the fair value of these instruments (see note 9 for more information).

Short Term Investments

Short term investments consist primarily of government treasury bills and treasury notes, government-sponsored debt securities, corporate commercial paper and bank term deposits. Short term investments are either designated as held-for-trading financial assets or classified as available-for-sale financial assets and the carrying value approximates the fair value of these instruments.

Security Deposits

Security deposits consist primarily of government treasury bills and government-sponsored debt securities, and are included in other assets for balance sheet presentation purposes. Security deposits are either designated as held-for-trading financial assets or classified as available-for-sale financial assets and the carrying value approximates the fair value of these instruments.

Credit Card Receivables
The Company, through President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw, has credit card receivables that are stated net of an allowance for credit losses. Any credit card receivable with a payment that is contractually 180 days in arrears, or where the likelihood of collection is considered remote, is written off. Interest income on credit card receivables is recorded on an accrual basis and is recognized in operating income.

Allowance for Credit Losses
PC Bank maintains an allowance for probable credit losses on aggregate exposures for which losses cannot be determined on an item-by-item basis. The allowance is based upon a statistical analysis of past and current performance, the level of allowance already in place and management's judgment. The allowance for credit losses is deducted from the credit card receivables balance. The net credit loss experience for the year is recognized in operating income.

Securitization
PC Bank securitizes credit card receivables through the sale of a portion of the total interest in certain receivables to independent trusts. These trusts are either not controlled by PC Bank or are qualifying special purpose entities. The credit card receivables are removed from the consolidated balance sheet when PC Bank has surrendered control and are considered sold for accounting purposes pursuant to Accounting Guideline 12, "Transfers of Receivables". When PC Bank sells credit card receivables in a securitization transaction, it retains servicing responsibilities, certain administrative responsibilities and the rights to future cash flows after obligations to investors have been met. Although PC Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables and accordingly a servicing liability is recorded. The servicing liability is recorded at fair value upon initial recognition. In the absence of quoted market rates for servicing securitized assets, fees payable to a replacement servicer, in the event that a replacement servicer was to be appointed, formed the basis of determination of fair value of the servicing liability. Gains or losses on the securitization of the receivables depends, in part, on the previous carrying amount of receivables involved in the transfer, allocated between the assets sold and retained interest, based on their relative fair values at the date of transfer. The fair value of the retained interest is determined as the best estimate of the net present value of expected future cash flows using management's best estimates of key assumptions such as net yield, monthly payment rates, weighted average life, expected annual credit losses and discount rates. Any gain or loss on a sale is recognized in operating income at the time of the securitization. Retained interest is designated as held-for-trading financial assets and is recorded at fair value on the consolidated balance sheet.

Vendor Allowances
The Company receives allowances from certain of its vendors whose products it purchases. These allowances are received for a variety of buying and/or merchandising activities, including vendor programs such as volume purchase allowances, purchase discounts, listing fees and exclusivity allowances. Consideration received from a vendor is a reduction in the cost of the vendor's products or services and is recognized as a reduction in the cost of inventories sold and the related inventory when recognized in the consolidated statement of earnings and the consolidated balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor's products, provided that these costs are separate, incremental and identifiable.

Inventories
The Company values inventories at the lower of cost and net realizable value. Costs include the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Loblaw's seasonal general merchandise, Loblaw's inventories at the distribution centres and Weston Foods inventories are measured at weighted average cost. Loblaw uses the retail method to measure the cost of certain retail store inventories. Loblaw estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. See note 12 for more information.

Fixed Assets

Fixed assets are recorded at cost including capitalized interest. Depreciation commences when the assets are put into use and is recognized on a straight-line basis to depreciate the cost of these assets over their estimated useful lives. Estimated useful lives range from 10 to 40 years for buildings, up to 10 years for building improvements and from 3 to 16 years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the lease term and their estimated useful lives and may include renewal options when an improvement is made after inception of the lease, to a maximum of 25 years, which approximates economic life. Equipment under capital leases is depreciated over the term of the lease.

Fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value exceeds the sum of the undiscounted future cash flows expected from their use and eventual disposal. These events or changes in circumstances include a commitment to retire or transfer manufacturing assets for Weston Foods and to close a Loblaw store or distribution centre or to relocate or convert a Loblaw store. Fixed assets are also reviewed for impairment annually. For purposes of annually reviewing assets for impairment, asset groups are reviewed at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. Therefore, Weston Foods manufacturing asset net cash flows are grouped together by major production categories, where cash flows are largely dependent on each other. Loblaw's store net cash flows are grouped together by primary market areas, where cash flows are largely dependent on each other. Primary markets are regional areas where a number of store formats operate within close proximity to one another. If an indicator of impairment exists, such as sustained negative operating cash flows of the respective asset group, then an estimate of undiscounted future cash flows of each such major production category for Weston Foods, or each such store for Loblaw, within this group is prepared and compared to its carrying value. For purposes of annually reviewing Loblaw's distribution centre assets for impairment, distribution centre net cash flows are grouped with the respective net cash flows of the stores they service. An impairment in the Loblaw store network serviced by the distribution centre may indicate an impairment in the distribution centre assets as well. If Weston Foods or Loblaw's assets are determined to be impaired, the impairment loss is measured as the excess of the carrying value over fair value. In addition, the carrying value of fixed assets is evaluated whenever events or changes in circumstances indicate that the carrying value of fixed assets may not be recoverable. For Loblaw, these events or changes in circumstances include a commitment to close a store or distribution centre or to relocate or convert a store where the carrying value of its assets is greater than the expected undiscounted future cash flows.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of a business acquired over the fair value of the underlying net assets acquired at the date of acquisition. Other intangible assets are recorded at fair value at the date of acquisition. Goodwill is not amortized and is assessed for impairment at the reporting unit level at least annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. A goodwill impairment charge is recognized to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value.

The Company determines the fair values of its reporting units using a discounted cash flow model corroborated by other valuation techniques such as market multiples. The process of determining these fair values requires management to make estimates and assumptions of a long term nature including, but not limited to, projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to GWL's and Loblaw's Boards of Directors. Discount rates are based on an industry weighted average cost of capital. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Intangible assets with an indefinite life are not subject to amortization and are tested at least annually for impairment. Any potential intangible asset impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. If the fair value of the intangible asset exceeds its carrying value, the intangible asset is considered not to be impaired. If the carrying value of the intangible asset exceeds its fair value, impairment is identified as the difference between the fair value and the carrying value and will result in a reduction in the carrying value of the intangible asset on the consolidated balance sheet and the recognition of a non-cash impairment charge.

The Company determines the fair values of its trademarks and brand names by using the "Relief from Royalty Method", a discounted cash flow model. The process of determining the fair values requires management to make assumptions of a long term nature regarding projected future sales, terminal growth rates, royalty rates and discount rates. Projected future sales are consistent with strategic plans presented to GWL's and Loblaw's Boards of Directors and discount rates are based on an industry after-tax cost of equity. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies. Intangible assets with a finite life are amortized over their estimated useful lives, ranging from 10 to 30 years.

Any impairment in the carrying value of goodwill or intangible assets is recognized in operating income. Additional disclosure regarding the results of the annual goodwill impairment test is provided in note 14.

Foreign Currency Translation

Self-Sustaining Foreign Operations

Assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. The resulting exchange gains or losses on translation are recognized as part of shareholders' equity in accumulated other comprehensive loss. When there is a reduction in the Company's net investment in self-sustaining foreign operations, the proportionate amount of accumulated other comprehensive loss is recognized in net earnings. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized.

Other

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income, except for items which are designated in a cash flow hedge and are deferred in accumulated other comprehensive loss and reclassified to net earnings when realized. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized.

Financial Instruments

Financial instruments are classified into a defined category, namely, held-for-trading financial assets or financial liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. Financial instruments are included on the Company's balance sheet and measured at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at cost or amortized cost. Financial assets and financial liabilities have been initially remeasured as at January 1, 2009 to take into account the appropriate credit risk and counterparty credit risk (see note 2). Gains and losses on held-for-trading financial assets and financial liabilities are recognized in net earnings in the period in which they arise. Unrealized gains and losses, including those related to changes in foreign exchange rates on available-for-sale financial assets, are recognized in accumulated other comprehensive loss until the financial asset is derecognized or determined to be impaired, at which time any unrealized gains or losses are recorded in net earnings. Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are amortized using the effective interest method.

The following classifications have been applied:

- Cash and cash equivalents, short term investments and security deposits are designated as held-for-trading with the exception of certain Loblaw U.S. dollar denominated cash equivalents, short term investments and security deposits designated in a cash flow hedging relationship, which are classified as available-for-sale financial assets.
- Accounts receivable and other receivables are classified as loans and receivables.
- Investments in equity instruments are classified as available-for-sale, with the exception of GWL's investment in exchangeable shares of Domtar (Canada) Paper Inc. prior to its sale in 2008, which was designated as held-for-trading.
- Bank indebtedness, accounts payable and certain accrued liabilities, short term debt, long term debt, capital lease obligations, certain other liabilities and capital securities have been classified as other financial liabilities.
- Certain accrued liabilities are classified as held-for-trading.
- GWL's Exchangeable Debentures, which prior to their redemption in 2008 could have been exchanged for common shares of Domtar Corporation, were remeasured at each balance sheet date based on the market price of the underlying shares.

The Company has not classified any financial assets as held-to-maturity.

Derivative Instruments

Derivative instruments in the form of cross currency swaps, interest rate swaps and equity swaps and forwards partially offset exposure to fluctuations in foreign currency exchange rates, interest rates and the market prices of GWL and Loblaw common shares. Financial and non-financial derivative instruments in the form of futures contracts, option contracts and forward contracts mitigate current and anticipated exposure to fluctuations in commodity prices and foreign currency exchange rates. Policies and guidelines prohibit the use of any derivative instruments for trading or speculative purposes.

All financial derivative instruments are recorded at fair value on the consolidated balance sheet. Derivative instruments have been initially remeasured as at January 1, 2009 to take into account the appropriate credit risk and counterparty credit risk (see note 2). Non-financial derivative instruments, such as certain contracts that are linked to commodity prices, are recorded at fair value on the consolidated balance sheet unless they are exempt from this treatment based upon expected purchase, sale or usage requirements. Embedded derivative instruments are separated from their host contract and recorded on the consolidated balance sheet at fair value. Fair values are based on quoted market prices where available from active markets; otherwise fair values are estimated using valuation methodologies, primarily discounted cash flow analysis (see note 27).

Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair value of the derivative instruments are recorded in net earnings unless cash flow hedge accounting is applied.

The Company formally identifies, designates and documents the relationships between hedging instruments and hedged items including cross currency swaps and interest rate swaps as cash flow hedges against the exposure to fluctuations in the foreign currency exchange rate and variable interest rates, and certain commodity futures as cash flow hedges against the exposure to commodity price fluctuations (see note 26). The Company assesses whether these derivative instruments continue to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative instrument is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is included in current period net earnings.

Exchangeable Debentures

Prior to their redemption in 2008, GWL's 3% Exchangeable Debentures were remeasured at each balance sheet date based on the market price of the underlying shares with any change in value recognized in operating income.

Income Taxes

The asset and liability method of accounting is used for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income tax expense when enacted or substantively enacted. Future income tax assets are evaluated and a valuation allowance, if required, is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Employee Future Benefits

The Company sponsors a number of pension plans, including funded defined benefit pension plans, defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. The Company also offers certain employee post-retirement and post-employment benefit plans and a long term disability benefit plan. Post-retirement and post-employment benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. The Company also contributes to various multi-employer pension plans which provide pension benefits.

Defined Benefit Plans

The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans, including post-retirement, post-employment and long term disability benefits, are based on actuarial valuations. The actuarial valuations for the defined benefit plans are determined using the projected benefit method prorated on service and management's best estimate of the discount rate, the expected long term rate of return on plan assets, the expected growth rate of health care costs, the rate of compensation increase, retirement rates, termination rates and mortality rates. Actuarial valuations are performed using a September 30 measurement date for accounting purposes. Market values used to value benefit plan assets are as at the measurement date and then adjusted for employer contributions made between the measurement date and the fiscal year end.

The discount rate used to value the accrued benefit plan obligation is based on market interest rates as at the measurement date, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations.

Past service costs arising from plan amendments are amortized over the expected average remaining service period of the active employees. The unamortized net actuarial gain or loss that exceeds 10% of the greater of the accrued benefit plan obligation or the fair value of the benefit plan assets at the beginning of the year is amortized over the expected average remaining service period of the active employees for defined benefit pension and post-retirement benefit plans unless the plan covers mostly inactive members, in which case life expectancy is used. The amortization period for the defined benefit pension plans ranges from 8 to 25 years, with a weighted average of 11 years. The amortization period for the post-retirement benefit plans ranges from 7 to 17 years, with a weighted average of 15 years. The unamortized net actuarial gain or loss for post-employment and long term disability benefits is amortized over a period not exceeding three years.

The net accrued benefit plan asset or liability represents the cumulative difference between the cost and the funding contributions and is recorded in other assets and other liabilities.

Defined Contribution and Multi-Employer Pension Plans

The costs of pension benefits for defined contribution pension plans and multi-employer pension plans are expensed as contributions are due.

Stock Option Plan and Share Appreciation Rights

The Company recognizes a compensation cost in operating income and a liability related to employee stock option grants that allow for settlement in shares or in the share appreciation value in cash at the option of the employee and employee share appreciation right grants that will be settled in cash, using the intrinsic value method. Under the intrinsic value method, the stock-based compensation liability is the amount by which the market price of the common shares at the balance sheet date exceeds the exercise price of the stock options. A year-over-year change in the stock-based compensation liability is recognized in operating income on a prescribed vesting basis.

Restricted Share Unit ("RSU") Plan

The Company recognizes a compensation cost in operating income on a prescribed vesting basis for each RSU granted equal to the market value of a GWL or Loblaw common share at the date on which RSUs are awarded to each participant, prorated over the performance period, and adjusts for changes in the market value until the end of the performance period. The cumulative effect of the changes in market value is recognized in operating income in the period of the change.

Director Deferred Share Unit ("DSU") Plan

Members of GWL's and Loblaw's Boards of Directors who are not management may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs. The DSU compensation liability is accounted for based on the number of units outstanding and the market value of the underlying GWL or Loblaw common share at the balance sheet date. The year-over-year change in the DSU compensation liability is recognized in operating income.

Executive Deferred Share Unit ("EDSU") Plan

Under this plan, executives may elect to defer up to 100% of the Short Term Incentive Plan ("STIP") bonus earned in any year into the EDSU plan, subject to an overall cap of three times the executive's base salary. All EDSUs held by an executive will be paid out in cash by December 15 of the year following the year in which the executive's employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. The number of EDSUs granted in respect of any year will be determined by dividing the STIP bonus that is subject to the EDSU plan election by the value of GWL or Loblaw common shares on the date the STIP bonus would otherwise be payable. For this purpose, and for purposes of determining the value of an EDSU upon conversion of the EDSUs into cash, the value of the EDSUs will be calculated by using the weighted average of the trading prices of GWL or Loblaw common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date.

Employee Share Ownership Plan ("ESOP")

GWL and Loblaw maintain ESOPs for their employees, which allow employees to acquire GWL and Loblaw common shares through payroll deductions of up to 5% of their gross regular earnings. GWL and Loblaw contribute an additional 25% of each employee's contribution to their respective plans, which is recognized in operating income as a compensation cost when the contribution is made.

Notes to the Consolidated Financial Statements

Use of Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions, and activities that may be undertaken in the future. Actual results could differ from these estimates.

Certain estimates, such as those related to valuation of inventories, goodwill and intangible assets, income taxes, employee future benefits and impairment of fixed assets, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. Illiquid credit markets, volatile equity, foreign currency and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Comparative Information

Certain prior year's information was reclassified to conform with the current year's presentation.

Loblaw intangible assets, which were previously presented as other assets on the consolidated balance sheet, are now included in goodwill and intangible assets and totaled $10 (2008 – $11) as at year end 2009.

Future Accounting Standards

Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations", which will replace Section 1581 of the same title, and issued Sections 1601, "Consolidated Financial Statements" and 1602, "Non-Controlling Interests". These standards will harmonize Canadian GAAP with International Financial Reporting Standards ("IFRS"). The amendments establish principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including non-controlling interests, contingent consideration and certain acquired contingencies. The amendments also require that acquisition related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. These amendments are effective for business combinations with an acquisition date on or after January 1, 2011 and early adoption is permitted. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

Multiple Deliverable Revenue Arrangements

On December 24, 2009, the Emerging Issues Committee ("EIC") issued EIC Abstract 175, "Multiple Deliverable Revenue Arrangements", which replaces EIC 142 "Revenue Arrangements with Multiple Deliverables". The Abstract provides guidance on the identification and accounting for multiple revenue generating activities and specifically requires a vendor to allocate consideration to multiple deliverables based on their relative selling price. The Abstract may be applied prospectively for annual fiscal periods beginning on or after January 1, 2011, and early adoption is permitted. The impact of implementing this Abstract on the Company's financial statements is currently being assessed.

2. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Accounting Standards Implemented in 2009

Goodwill and Intangible Assets

In November 2007, the CICA issued amendments to Section 1000, "Financial Statement Concepts" and AcG 11, "Enterprises in the Development Stage", issued a new Section 3064, "Goodwill and Intangible Assets" ("Section 3064") to replace Section 3062, "Goodwill and Other Intangible Assets", withdrew Section 3450, "Research and Development Costs" and amended EIC Abstract 27, "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments, in conjunction with Section 3064, provide guidance for the recognition of intangible assets, including internally developed assets from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The Company implemented these requirements as of January 1, 2009, retroactively with restatement of the comparative period. Restatement of the comparative period resulted in an increase in selling and administrative expenses of $29, a decrease in depreciation and amortization of $35, an increase in future tax expense of $1 and an increase in minority interest of $3, resulting in an increase in 2008 net earnings of $2. Restatement of the comparative period also resulted in a decrease in other assets of $42, a decrease in retained earnings net of income taxes and minority interest of $17, a decrease in future income taxes liability of $15 and a decrease in minority interest of $10.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the EIC issued Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The committee reached a consensus that a company's credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments. The transitional provisions require the abstract to be applied retrospectively without restatement of prior periods. Financial assets and financial liabilities, including derivative instruments, have been remeasured as at January 1, 2009 to take into account the appropriate credit risk and counterparty credit risk. As a result, a decrease in other assets of $12, a decrease in other liabilities of $4, a decrease in minority interest of $3, an increase net of income taxes and minority interest in accumulated other comprehensive loss of $1 and a decrease in retained earnings net of income taxes and minority interest of $4 were recorded on the consolidated balance sheet.

Financial Instruments – Disclosures

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures" to include additional disclosure relating to the measurement of fair value for financial instruments and liquidity risk. The amendment establishes a three level hierarchy that reflects the significance of the inputs used in fair value measurements on financial instruments. The amendment is effective for annual financial statements relating to fiscal years ending after September 30, 2009, therefore the Company has included these additional disclosures (see note 27) for year end 2009. The implementation of these amendments did not have an impact on the Company's results of operations or financial condition.

Accounting Standards Implemented in 2008

Capital Disclosures and Financial Instruments – Disclosure and Presentation

In 2008, the Company adopted three new disclosure standards: Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". The adoption of these standards did not have an impact on the Company's results of operations or financial condition.

Inventories

Effective January 1, 2008, the Company implemented Section 3031, "Inventories" ("Section 3031"), issued by the CICA in June 2007, which replaced Section 3030 of the same title.

The transitional adjustments resulting from the implementation of Section 3031 are recognized in 2008 opening retained earnings. Upon implementation of these requirements, a decrease in opening inventories of $67 and a corresponding decrease of $27 to opening retained earnings net of income taxes of $25 and minority interest of $15 were recorded on the consolidated balance sheet resulting mainly from the application by Loblaw of a consistent cost formula for all inventories having a similar nature and use.

3. BUSINESS ACQUISITIONS

Loblaw acquired all of the outstanding common shares of T&T Supermarket Inc. ("T&T") in the third quarter of 2009, for cash consideration of $200, $191 of which was paid on the date of acquisition. Loblaw also assumed a liability of $34 associated with the preferred shares issued by T&T to a vendor prior to the acquisition. The liability will increase with a favourable performance of the T&T business and the increase in the liability will be expensed as incurred. Acquisition costs of $4 were incurred in connection with the acquisition. The acquisition was accounted for using the purchase method of accounting and its results of operations from the date of the acquisition have been included by the Company.

The preferred shares are classified as other liabilities on the consolidated balance sheet as at year end 2009. Redemption or purchase of the preferred shares may take place upon the occurrence of certain events, including the expiry of 5 years from the closing date of the acquisition. The preferred shareholder may increase this period up to a further 5 years if certain conditions are met. The preferred share liability may be satisfied in cash, Loblaw common shares, or a combination thereof, at the option of Loblaw.

The preliminary purchase price allocation, based on Loblaw's assessment of fair value is as follows:

Net assets acquired:		
Inventory	$	39
Other current assets		7
Fixed assets		73
Goodwill		131
Indefinite life intangible assets (trademarks and brand names)		51
Definite life intangible assets		14
Current liabilities		(60)
Other liabilities		(39)
Future income taxes		(16)
Cash consideration	$	200

In connection with the acquisition of T&T, Loblaw also acquired certain net assets for $5.

The goodwill associated with these transactions is not deductible for tax purposes.

In 2009, Loblaw commenced a Dividend Reinvestment Plan ("the DRIP"). Under the terms of the DRIP, eligible holders of common shares may elect to automatically reinvest their regular quarterly dividends in additional common shares of Loblaw without incurring any commissions, service charges or brokerage fees. The Company has elected to participate in the DRIP with respect to approximately 160 million Loblaw common shares owned by the Company. As a result of the common shares issued under the DRIP during 2009, the Company's proportional ownership of Loblaw increased and this change was accounted for as a step acquisition of Loblaw by the Company, resulting in an increase to goodwill of $9 (see note 14).

During the fourth quarter of 2009, Loblaw purchased for cancellation 1.7 million (2008 – nil) of its common shares for $56 (2008 – nil). As a result, the Company's proportionate ownership of Loblaw increased and this change was accounted for as a step acquisition, resulting in an increase to goodwill of $11 (see note 14).

During 2008, Weston Foods purchased a frozen bakery manufacturing facility in Ontario, Canada for cash consideration of $10. The acquisition was accounted for using the purchase method of accounting. The fair value of the net assets acquired consisted of $1 of inventories and $10 of fixed assets, net of current liabilities of $1.

In the normal course of business, Loblaw may acquire from time to time franchisee stores and convert them to corporate stores. In 2009, Loblaw acquired 3 (2008 – 1) franchisee stores for cash consideration of $6 (2008 – $1), resulting in goodwill acquired of $5 (2008 – $1).

4. BUSINESS DISPOSITIONS

On December 1, 2008, Weston Foods sold the net assets of its dairy and bottling operations for cash proceeds of $467, which resulted in a pre-tax gain of $335 ($281, net of tax). The carrying value of the net assets sold consisted of fixed assets of $54, goodwill of $11 and negative working capital of $6. Prior to the closing, Weston Foods paid Loblaw $65 in consideration of Loblaw's agreement to enter into a long term supply agreement with the dairy and bottling operations. This payment will be recognized into operating income by Loblaw over the term of the agreement as goods are purchased. The dairy and bottling operations generated sales of $543 and operating income of $47 for Weston Foods in 2008. Depreciation expense was $6 in 2008.

In 2008, Loblaw disposed of its food service business for proceeds of $36 which resulted in a pre-tax gain of $22 in operating income ($16, net of tax).

5. DISCONTINUED OPERATIONS

On January 21, 2009, Dunedin Holdings S.à r.l. ("Dunedin"), a subsidiary of GWL, sold its fresh bread and baked goods business in the United States ("U.S. fresh bakery business") to Grupo Bimbo, S.A.B. de C.V. for gross and net proceeds of $3,107 (approximately U.S. $2,500, including approximately U.S. $125 for interest bearing assets). The carrying value of the net assets sold was $2,168 including goodwill and intangible assets of $1,421.

As part of the sale transaction and typical of the normal process of selling a business, Dunedin agreed to indemnify Grupo Bimbo in the event of inaccuracies in representations and warranties or if it fails to perform agreements and covenants provided for in the agreement of purchase and sale. The terms of the indemnification provisions vary in duration and may extend for an unlimited period of time. The indemnification provisions could result in future cash outflows and statement of earnings charges. The Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time.

The results of discontinued operations presented in the consolidated statements of earnings were as follows:

	2009(1)	2008
Sales	**$ 145**	$ 2,422
Operating income	**9**	218
Gain on disposal(2)	**939**	
Interest income and other financing charges(3)	**(1)**	(10)
Earnings before the following:	**949**	228
Income taxes	**41**	41
Earnings from discontinued operations	**$ 908**	$ 187

(1) Reflects results of the U.S. fresh bakery business up to the date of sale, January 21, 2009, and the gain on disposal.
(2) Net of the reclassification of the cumulative foreign currency translation loss of $110 associated with the U.S. fresh bakery business that was previously reflected in accumulated other comprehensive loss (see note 25).
(3) In calculating earnings from discontinued operations, no general interest expense has been allocated to these operations.

The assets held for sale and related liabilities as at year end 2008 were as follows:

	2008
Current assets of operations held for sale	
Accounts receivable	$ 219
Inventories	40
Prepaid expenses and other assets	211
Fixed assets	618
Goodwill and intangible assets	1,364
Future income taxes	136
	$ 2,588

		2008
Current liabilities of operations held for sale		
Bank indebtedness	$	22
Accounts payable and accrued liabilities		354
Income taxes		52
Future income taxes		2
Other liabilities		190
	$	620

The cash flows from discontinued operations were as follows:

		2009(1)		2008
Cash flows (used in) from operations	**$**	**(105)**	$	247
Cash flows from (used in) investing		**3,107**		(50)
Cash flows from (used in) financing		**15**		(9)
Cash flows from discontinued operations	**$**	**3,017**	$	188

(1) Reflects the proceeds received on the sale and the cash flows of the U.S. fresh bakery business up to the date of sale, January 21, 2009.

6. INTEREST EXPENSE AND OTHER FINANCING CHARGES

		2009		2008
Interest on long term debt	**$**	**371**	$	396
Loss on redemption of debt (note 18)		**49**		
Interest expense on financial derivative instruments (note 26)		**3**		2
Other financing charges(1)		**(33)**		(15)
Net short term interest income (note 9)		**(20)**		(13)
Interest income on security deposits		**(4)**		(12)
Dividends on capital securities		**18**		22
Capitalized to fixed assets		**(21)**		(20)
Interest expense and other financing charges	**$**	**363**	$	360

(1) Other financing charges for 2009 includes non-cash income of $13 (2008 – a non-cash charge of $11) related to the fair value adjustment of Weston Holdings Limited's ("WHL"), a subsidiary of GWL, forward sale agreement for 9.6 million Loblaw common shares, which was entered into during 2001 and matures in 2031. The fair value adjustment of the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw common shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw common shares it owns. Any cash paid under the forward contract could be offset by the sale of Loblaw common shares. Also included in other financing charges is forward accretion income of $36 (2008 – $43) net of the forward fee of $16 (2008 – $17) associated with WHL's forward sale agreement.

During 2009, net interest expense of $403 (2008 – $407) was recorded related to the financial assets and financial liabilities not classified as held-for-trading. In addition, $19 (2008 – $37) of income from cash and cash equivalents and short term investments held primarily by Dunedin and certain of its affiliates and Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw, was recognized in net short term interest income.

Interest on debt and dividends on capital securities paid in 2009 was $511 (2008 – $561), and interest received on cash and cash equivalents, short term investments and security deposits in 2009 was $93 (2008 – $167).

7. INCOME TAXES

The effective income tax rate in the consolidated statement of earnings is reported at a rate different than the weighted average basic Canadian federal and provincial statutory income tax rate for the following reasons:

	2009	2008[1]
Weighted average basic Canadian federal and provincial statutory income tax rate	**30.4%**	30.9%
Net increase (decrease) resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(1.6)**	(2.8)
Unrecognized benefit of foreign exchange losses and impact of the reversal of the cumulative foreign currency translation loss	**4.4**	
Non-taxable and non-deductible amounts (including capital gains/losses and dividends)	**8.5**	(4.5)
Impact of statutory income tax rate changes on future income tax balances	**(0.2)**	
Impact of resolution of certain income tax matters from a previous year and other	**(1.4)**	2.3
Effective income tax rate applicable to earnings from continuing operations before income taxes and minority interest	**40.1%**	25.9%

(1) Restated – see note 2.

Net income taxes paid in 2009 were $299 (2008 – $133).

The cumulative effects of changes in Canadian federal and certain provincial statutory income tax rates on future income tax assets and liabilities are included in the consolidated financial statements at the time of substantive enactment. Accordingly, in 2009 a $1 (2008 – nil) net reduction to the future income tax expense was recognized as a result of changes in the Canadian federal and certain provincial statutory income tax rates.

The income tax effects of temporary differences that gave rise to significant portions of the future income tax assets (liabilities) were as follows:

	2009	2008[1]
Accounts payable and accrued liabilities	**$ 72**	$ 71
Other liabilities	**166**	163
Losses carried forward (expiring 2015 to 2029)	**121**	117
Fixed assets	**(295)**	(319)
Goodwill and intangible assets	**11**	(29)
Other assets	**(217)**	(188)
Other	**21**	17
Net future income tax liabilities	**$ (121)**	$ (168)

	2009	2008[1]
Recorded on the consolidated balance sheet as follows:		
Future income tax assets		
Current	**$ 87**	$ 69
Non-current	**61**	36
	148	105
Future income tax liability		
Non-current	**(269)**	(273)
	(269)	(273)
Net future income tax liabilities	**$ (121)**	$ (168)

(1) Restated – see note 2.

8. BASIC AND DILUTED NET EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS

	2009	2008[1]
Net earnings from continuing operations	$ 127	$ 647
Prescribed dividends on preferred shares in share capital	(44)	(47)
Net earnings from continuing operations available to common shareholders for basic earnings per share	$ 83	$ 600
Reduction in net earnings due to dilution at Loblaw	(2)	
Net earnings from continuing operations available to common shareholders for diluted earnings per share	$ 81	$ 600
Weighted average common shares outstanding (in millions) (note 22)	129.1	129.1
Dilutive effect of stock-based compensation (in millions)[2]		
Diluted weighted average common shares outstanding (in millions)	129.1	129.1
Basic net earnings per common share from continuing operations ($)	$ 0.64	$ 4.65
Diluted net earnings per common share from continuing operations ($)	$ 0.63	$ 4.65

(1) Restated – see note 2.

(2) Stock options with an exercise price greater than the average market price of GWL's common shares are not included in the computation of diluted net earnings per common share from continuing operations. Accordingly, for 2009, 1,252,630 (2008 – 1,303,182) stock options, with a weighted average price of $85.92 (2008 – $86.54) per common share, were excluded from the computation of diluted net earnings per common share from continuing operations.

9. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents as at December 31, 2009 and December 31, 2008 were as follows:

	2009	2008
Cash	$ 294	$ 85
Cash equivalents – short term investments with a maturity of 90 days or less:		
Bank term deposits	1,140	101
Government treasury bills	1,446	656
Government-sponsored debt securities	99	107
Corporate commercial paper	389	450
Foreign bonds		47
Cash and cash equivalents	$ 3,368	$ 1,446

As at year end 2009, U.S. $2,220 (2008 – U.S. $2,129) held primarily by Dunedin and certain of its affiliates and Glenhuron was included in cash and cash equivalents, short term investments and security deposits.

The Company recognized an unrealized foreign currency exchange loss of $327 (2008 – gain of $451) as a result of translating U.S. dollar denominated cash and cash equivalents, short term investments and security deposits, of which a loss of $165 (2008 – gain of $233) related to cash and cash equivalents. Loblaw recognized an unrealized foreign currency exchange loss of $146 (2008 – gain of $210) as a result of translating U.S. dollar denominated cash and cash equivalents, short term investments and security deposits, of which a loss of $59 (2008 – gain of $87) related to cash and cash equivalents. The remaining unrealized foreign currency exchange loss of $181 (2008 – gain of $241) includes a loss of $106 (2008 – gain of $146) related to the translation of cash and cash equivalents held by GWL's foreign operations. During 2009, foreign currency exchange losses associated with a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates of $225 (2008 – nil) were recognized in operating income with the balance recognized in other comprehensive income.

The resulting Loblaw loss (2008 – gain) on cash and cash equivalents, short term investments and security deposits is offset in operating income and other comprehensive income by the unrealized foreign currency exchange gain of $145 (2008 – loss of $208) on the cross currency swaps (see note 26).

10. ACCOUNTS RECEIVABLE

The components of accounts receivable as at December 31, 2009 and December 31, 2008 were as follows:

	2009	2008
Credit card receivables	$ 2,128	$ 2,206
Amount securitized	(1,725)	(1,775)
Net credit card receivables	403	431
Other receivables	448	527
Accounts receivable	$ 851	$ 958

Credit Card Receivables

The Company, through PC Bank, securitizes certain credit card receivables by selling them to independent trusts that issue interest bearing securities. When PC Bank sells credit card receivables, it retains servicing responsibilities, certain administrative responsibilities and the rights to future cash flows after obligations to investors have been met. The retained interest has been designated as held-for-trading and is carried at its fair value in accounts receivable. The fair value of the retained interest was estimated using management's best estimate of the net present value of expected future cash flows using key assumptions. Although PC Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the independent trusts and accordingly, a servicing liability is recorded.

In 2009, no incremental (2008 – $300) credit card receivables were securitized. During the year the securitization yielded no gain (2008 – $1) on the initial sale. During 2009, PC Bank repurchased $50 (2008 – nil) of the co-ownership interest in the securitized receivables from an independent trust and an additional $90 was repurchased subsequent to the end of 2009. A portion of the securitized receivables held by an independent trust facility was renewed for a 364-day term during 2009. During 2009, PC Bank received income of $235 (2008 – $176) related primarily to PC Bank's right to excess cash flows earned on the securitized credit card receivables. A decrease in servicing liability of $3 (2008 – increase of $1) was recognized during the year on securitization and at year end the servicing liability was $8 (2008 – $11). The trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral of $121 (2008 – $124) as well as a standby letter of credit for $116 (2008 – $116) on a portion of the securitized amount (see note 29).

Net credit loss experience of $21 (2008 – $35) includes $139 (2008 – $99) of credit losses on the total portfolio of credit card receivables net of credit losses of $118 (2008 – $64) relating to securitized credit card receivables.

The following table displays the sensitivity of the current fair value of the retained interest to an immediate 10% and 20% adverse change in the 2009 key assumptions. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

		Change in Assumptions	
	2009	10%	20%
Carrying value of retained interest	$ 13		
Payment rate (monthly)	45.46%	$ (1)	$ (2)
Weighted average life (years)	0.7		
Expected credit losses	7.11%	$ (2)	$ (4)
Annual discount rate applied to residual cash flows	6.44%		
Net yield	13.55%	$ (4)	$ (8)
Cost of funds	2.34%	$ (1)	$ (1)

The details on the cash flows from securitization are as follows:

	2009	2008
(Repurchase of co-ownership interests) Proceeds from new securitizations	**$ (50)**	$ 300
Net cash flows received on retained interest	**$ 244**	$ 177

Credit card receivables that are past due of $7 (2008 – $7) as at year end 2009 are not classified as impaired as they are less than 90 days past due and most receivables are reasonably expected to remedy the past due status. Any credit card receivable balances with a payment that is contractually 180 days in arrears or where the likelihood of collection is considered remote are written off. Concentration of credit risk with respect to receivables is limited due to the Company's customer base being diverse. Credit risk on the credit card receivables is managed as described in note 28.

Other Receivables

Other receivables consist mainly of receivables from Loblaw's independent franchisees, associated stores and independent accounts and receivables from Weston Foods customers. Other receivables that are past due but not impaired totaled $54 (2008 – $86) as at year end 2009, of which a nominal amount were more than 60 days past due.

11. ALLOWANCES FOR RECEIVABLES

The allowance for receivables recorded on the consolidated balance sheet is maintained at a level which is considered adequate to absorb credit related losses on credit card receivables and losses on other receivables. The receivables for PC Bank credit card, Loblaw associated stores and independent accounts and Weston Foods customers are presented net of allowances in accounts receivable on the consolidated balance sheet. A continuity of the Company's allowances for receivables is as follows:

Credit Card Receivables	2009	2008
Allowances, beginning of year	**$ (15)**	$ (13)
Provision for losses	**(21)**	(35)
Recoveries	**(9)**	(14)
Write-offs	**29**	47
Allowances, end of year	**$ (16)**	$ (15)

Other Receivables	2009	2008
Allowances, beginning of year	**$ (32)**	$ (44)
Provision for losses	**(102)**	(84)
Write-offs	**107**	96
Allowances, end of year	**$ (27)**	$ (32)

12. INVENTORIES

	2009	2008
Raw materials and supplies	$ 36	$ 41
Finished goods	2,174	2,266
Inventories	$ 2,210	$ 2,307

Cost of inventories sold includes $44 (2008 – $44) of depreciation in 2009.

For inventories recorded as at year end 2009, Loblaw recorded $15 (2008 – $16) as an expense for the write-down of inventories below cost to net realizable value. There were no reversals of inventories written down previously that are no longer estimated to sell below cost.

13. FIXED ASSETS

	2009			2008		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	$ 494		$ 494	$ 556		$ 556
Properties under development	191		191	164		164
Land	1,862		1,862	1,773		1,773
Buildings	6,099	$ 1,703	4,396	5,699	$ 1,541	4,158
Equipment and fixtures	5,488	3,779	1,709	5,029	3,501	1,528
Buildings and leasehold improvements	583	278	305	562	260	302
	14,717	5,760	8,957	13,783	5,302	8,481
Capital leases – buildings and equipment	180	117	63	171	110	61
Fixed assets	$ 14,897	$ 5,877	$ 9,020	$ 13,954	$ 5,412	$ 8,542

Included in land and buildings was $58 (2008 – $68) of properties held for sale. Loblaw recorded a fixed asset impairment charge of $27 (2008 – $29) and other charges of $19 (2008 – $18). In addition, Weston Foods recorded a fixed asset impairment charge of $1 (2008 – nil) and accelerated depreciation of $2 (2008 – $2).

During 2009, Loblaw completed the purchase of a distribution centre for consideration of $140 plus closing costs. Loblaw assumed a mortgage of $96 in connection with the purchase, of which $2 is included in long term debt due within one year (see note 18).

14. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying value of goodwill and intangible assets were as follows:

			2009			2008
	Weston Foods	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Goodwill, beginning of year	**$ 169**	**$ 947**	**$ 1,116**	$ 157	$ 946	$ 1,103
Goodwill acquired during the year[1]		**156**	**156**		1	1
Business disposition (note 4)				(11)		(11)
Goodwill impairment[2]	**(73)**		**(73)**			
Impact of foreign currency translation	**(4)**		**(4)**	23		23
Goodwill, end of year	**92**	**1,103**	**1,195**	169	947	1,116
Trademarks and brand names	**13**	**51**	**64**	13		13
Other intangible assets	**5**	**32**	**37**	5	11	16
Goodwill and intangible assets	**$ 110**	**$ 1,186**	**$ 1,296**	$ 187	$ 958	$ 1,145

(1) Goodwill acquired during 2009 includes $131 in connection with Loblaw's acquisition of T&T, $9 related to the Company's participation in the Loblaw DRIP, $11 related to Loblaw's repurchase of 1.7 million of its common shares and $5 (2008 – $1) related to Loblaw's acquisition of franchisee stores (see note 3).

(2) Weston Foods reorganized its remaining operations subsequent to the disposition of the U.S. fresh bakery business (see note 5). The reorganization changed the composition of Weston Foods' reporting units for the purpose of goodwill impairment testing. As a result of this change, Weston Foods recorded a write-down of goodwill related to the biscuits, cookies, cones and wafers business in the first quarter of 2009.

The Loblaw trademark and brand names are indefinite life intangible assets. The remaining intangible assets are definite life intangible assets and are being amortized over their estimated useful lives ranging from 10 to 30 years.

During the fourth quarters of 2009 and 2008, the Company performed its annual goodwill impairment test and determined that there was no impairment of the carrying values of goodwill.

15. OTHER ASSETS

	2009	2008[1]
Security deposits	**$ 348**	$ 560
WHL's unrealized equity forward receivable (note 26)	**446**	397
Accrued benefit plan asset (note 16)	**381**	324
Franchise investments and other receivables	**201**	204
Unrealized cross currency swaps receivable (note 26)	**187**	107
Other	**93**	111
Other assets	**$ 1,656**	$ 1,703

(1) Restated – see note 2.

During 2008, GWL sold its investment in Domtar (Canada) Paper Inc. which was included in other assets for $144, and used these proceeds to settle its obligation under the related Exchangeable Debentures (see note 18). The Domtar (Canada) Paper Inc. investment was carried at fair value. The fair value of this investment was based on the market price of common shares of Domtar (Canada) Paper Inc.

Included in other above are $15 (2008 – $21) of unrealized interest rate swaps receivable and nil (2008 – $7) related to an electricity forward contract (see note 26).

16. EMPLOYEE FUTURE BENEFITS

Pension and Other Benefit Plans

The Company sponsors a number of pension plans, including funded defined benefit pension plans, defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. Certain obligations of the Company to these supplemental pension arrangements are secured by standby letters of credit issued by major Canadian chartered banks. The Company's defined benefit pension plans are predominantly non-contributory and these benefits are, in general, based on career average earnings.

In Canada, a national defined contribution pension plan for salaried employees was introduced by the Company during 2006. All eligible salaried employees were given the option to join this plan and convert their past accrued pension benefits or to remain in their existing defined benefit pension plans. All new salaried employees participate only in the national defined contribution pension plan.

The Company also offers certain employee post-retirement and post-employment benefit plans and a long term disability benefit plan. Post-retirement and post-employment benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for post-retirement benefits are those who retire at certain retirement ages having met certain service requirements and employees eligible for post-employment benefits are those on long term disability leave. The majority of post-retirement health care plans for current and future retirees include a limit on the total benefits payable by the Company.

The Company also contributes to various multi-employer pension plans that provide pension benefits.

The accrued benefit plan obligations and the fair value of the benefit plan assets were determined using a September 30 measurement date for accounting purposes.

Funding of Pension and Other Benefit Plans

The most recent actuarial valuations of the Canadian defined benefit pension plans for funding purposes ("funding valuations") were performed as at December 31, 2006, December 31, 2007 or December 31, 2008. The Company is required to file funding valuations at least every three years; accordingly, the next funding valuations for the above mentioned plans will be performed as at December 31, 2009, 2010 or 2011. The most recent funding valuations of the United States defined benefit pension plans were as at January 1, 2009. The Company is required to file United States funding valuations every year; accordingly, the next required funding valuations will be as at January 1, 2010.

Total cash payments made by the Company during 2009, consisting of contributions to funded defined benefit pension plans, defined contribution pension plans, multi-employer pension plans, long term disability benefit plans and benefits paid directly to beneficiaries of the supplemental unfunded defined benefit pension plans and other benefit plans, were $217 (2008 – $232).

During 2010, the Company expects to contribute approximately $120 to its funded defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, market performance and regulatory requirements. The Company also expects to make contributions in 2010 to defined contribution pension plans and multi-employer pension plans as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans and other benefit plans.

Pension and Other Benefit Plans Status

Information on the Company's defined benefit pension plans and other benefit plans, in aggregate, was as follows:

			2009			2008
	Pension Benefit Plans	**Other Benefit Plans[(1)]**	**Total**	Pension Benefit Plans	Other Benefit Plans[(1)]	Total
Benefit Plan Assets						
Fair value, beginning of year	**$ 1,311**	**$ 21**	**$ 1,332**	$ 1,456	$ 36	$ 1,492
Actual return (loss) on plan assets	**58**	**1**	**59**	(183)	2	(181)
Employer contributions	**130**	**13**	**143**	152	11	163
Employee contributions	**3**		**3**	3	1	4
Benefits paid	**(123)**	**(27)**	**(150)**	(105)	(27)	(132)
Transfers to national defined contribution pension plan				(25)		(25)
Other, including impact of foreign currency translation	**(7)**		**(7)**	13	(2)	11
Fair value, end of year	**$ 1,372**	**$ 8**	**$ 1,380**	$ 1,311	$ 21	$ 1,332
Accrued Benefit Plan Obligations						
Balance, beginning of year	**$ 1,483**	**$ 343**	**$ 1,826**	$ 1,563	$ 341	$ 1,904
Current service cost	**48**	**34**	**82**	51	37	88
Interest cost	**89**	**20**	**109**	87	19	106
Benefits paid	**(123)**	**(27)**	**(150)**	(105)	(27)	(132)
Actuarial loss (gain)	**70**	**(28)**	**42**	(101)	(29)	(130)
Plan amendments	**8**		**8**			
Transfers to national defined contribution pension plan				(25)		(25)
Other, including impact of foreign currency translation	**(9)**	**(2)**	**(11)**	13	2	15
Balance, end of year	**$ 1,566**	**$ 340**	**$ 1,906**	$ 1,483	$ 343	$ 1,826
Deficit of Plan Assets Versus Plan Obligations	**$ (194)**	**$ (332)**	**$ (526)**	$ (172)	$ (322)	$ (494)
Unamortized past service costs	**8**	**(2)**	**6**	2	(1)	1
Unamortized net actuarial loss	**505**	**73**	**578**	430	105	535
Net accrued benefit plan asset (liability)	**$ 319**	**$ (261)**	**$ 58**	$ 260	$ (218)	$ 42
Recorded in the consolidated balance sheets as follows:						
Other assets (note 15)	**$ 381**		**$ 381**	$ 324		$ 324
Other liabilities (note 19)	**(62)**	**$ (261)**	**(323)**	(64)	$ (218)	(282)
Net accrued benefit plan asset (liability)	**$ 319**	**$ (261)**	**$ 58**	$ 260	$ (218)	$ 42

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

Funded Status of Plans in Deficit

Included in the accrued benefit plan obligations and the fair value of benefit plan assets at year end are the following amounts in respect of plans with accrued benefit plan obligations in excess of benefit plan assets:

	2009		2008	
	Pension Benefit Plans	**Other Benefit Plans[(1)]**	Pension Benefit Plans	Other Benefit Plans[(1)]
Fair Value of Benefit Plan Assets	**$ 1,293**	**$ 8**	$ 1,234	$ 21
Accrued Benefit Plan Obligations	**(1,489)**	**(340)**	(1,407)	(343)
Deficit of Plan Assets versus Plan Obligations	**$ (196)**	**$ (332)**	$ (173)	$ (322)

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

Asset Allocations

The benefit plan assets are held in trust and at September 30 consisted of the following asset categories:

Percentage of Plan Assets	2009		2008	
Asset Category	**Pension Benefit Plans**	**Other Benefit Plans[(1)]**	Pension Benefit Plans	Other Benefit Plans[(1)]
Equity securities	**54%**		62%	
Debt securities	**44%**	**98%**	37%	99%
Cash and cash equivalents	**2%**	**2%**	1%	1%
Total	**100%**	**100%**	100%	100%

(1) Other benefit plans include post-employment and long term disability benefit plans.

Pension benefit plan assets include securities issued by Loblaw having a fair value of $3 (2008 – $2) as at September 30, 2009. Pension benefit plan assets do not include any GWL securities. Other benefit plan assets do not include any GWL or Loblaw securities.

Pension and Other Benefit Plans Cost

The total net cost for the Company's benefit plans and multi-employer pension plans was as follows:

	2009		2008	
	Pension Benefit Plans	Other Benefit Plans(1)	Pension Benefit Plans	Other Benefit Plans(1)
Current service cost, net of employee contributions	$ 45	$ 34	$ 48	$ 36
Interest cost on plan obligations	89	20	87	19
Actual (return) loss on plan assets	(58)	(1)	183	(2)
Actuarial loss (gain)	70	(28)	(101)	(29)
Plan amendments	8			
Defined benefit plan cost, before adjustments to recognize the long term nature of employee future benefit costs	154	25	217	24
(Shortfall) excess of actual return over expected return on plan assets	(34)		(291)	1
(Shortfall) excess of amortized net actuarial loss (gain) over actual actuarial loss (gain) on accrued benefit obligation	(44)	32	110	43
(Shortfall) excess of amortized past service costs over actual past service costs	(6)		1	
Net defined benefit plan cost	70	57	37	68
Defined contribution plan cost	17		15	
Multi-employer pension plan cost	57		54	
Net benefit plan cost	$ 144	$ 57	$ 106	$ 68

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

Plan Assumptions

The significant annual weighted average actuarial assumptions used in calculating the Company's accrued benefit plan obligations as at the measurement date of September 30 and the net defined benefit plan cost for the year were as follows:

	2009		2008	
	Pension Benefit Plans	Other Benefit Plans(1)	Pension Benefit Plans	Other Benefit Plans(1)
Accrued Benefit Plan Obligations				
Discount rate	5.7%	5.5%	6.0%	5.9%
Rate of compensation increase	3.5%		3.5%	
Net Defined Benefit Plan Cost				
Discount rate	6.0%	5.9%	5.5%	5.4%
Expected long term rate of return on plan assets	7.3%	5.0%	7.5%	5.0%
Rate of compensation increase	3.5%		3.5%	

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

The growth rate of health care costs, primarily drug and other medical costs for other benefit plans, for the net benefit plan cost was estimated at 9.5% (2008 – 10.0%) and is assumed to gradually decrease to 5.0% by 2015 (2008 – 5.0% by 2015), remaining at that level thereafter.

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2009 and the sensitivity of a 1% change in each of these assumptions on the accrued benefit plan obligations and on the benefit plan cost for defined benefit pension plans and other benefit plans. The table reflects the impact on the current service and interest cost components for the discount rate and expected growth rate of health care costs assumptions.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Pension Benefit Plans		Other Benefit Plans(1)	
	Accrued Benefit Plan Obligations	Benefit Plan Cost(2)	Accrued Benefit Plan Obligations	Benefit Plan Cost(2)
Expected long term rate of return on plan assets		7.3%		5.0%
Impact of: 1% increase	n/a	$ (13)	n/a	–
1% decrease	n/a	$ 13	n/a	–
Discount rate	5.7%	6.0%	5.5%	5.9%
Impact of: 1% increase	$ (193)	$ (9)	$ (36)	$ (3)
1% decrease	$ 221	$ 9	$ 41	$ 3
Expected growth rate of health care costs(3)			9.0%	9.5%
Impact of: 1% increase	n/a	n/a	$ 31	$ 5
1% decrease	n/a	n/a	$ (27)	$ (4)

n/a – not applicable

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

(2) Discount rate and expected growth rate of health care costs sensitivity is for current service and interest costs only.

(3) Gradually decreasing to 5.0% by 2015 (2008 – 5.0% by 2015) for the accrued benefit plan obligation and the benefit plan cost and remaining at that level thereafter.

17. SHORT TERM DEBT

During 2008, GWL entered into a $300, 5-year committed credit facility provided by a syndicate of third-party lenders. This facility was the primary source of GWL's short term funding requirements. As at December 31, 2008, nil was drawn on this credit facility and it was terminated following the sale of the U.S. fresh bakery business in 2009.

During 2008, Loblaw entered into an $800 committed credit facility, expiring in March of 2013, provided by a syndicate of third-party lenders which contains certain financial covenants (see note 23). This facility is a source of Loblaw's short term funding requirements and permits borrowings having up to a 180-day term. Interest is based on a floating rate, primarily the bankers' acceptance rate, and an applicable margin based on Loblaw's credit rating. As at year end 2009, nil (2008 – $190) was drawn on the committed credit facility.

Also included in short term debt are GWL's Series B Debentures, due on demand, of $300 (2008 – $263) (see note 18).

18. LONG TERM DEBT

	2009	2008
George Weston Limited		
Debentures		
Series B, current rate 0.93%, due on demand(i)	**$ 300**	$ 263
Series A, 7.00%, due 2031(i)	**466**	466
Notes		
5.90%, due 2009(ii)		250
6.45%, due 2011	**300**	300
5.05%, due 2014	**200**	200
12.70%, due 2030(iii)		
Principal		150
Effect of coupon repurchase		(128)
7.10%, due 2032	**150**	150
6.69%, due 2033	**100**	100
Loblaw Companies Limited		
Notes		
5.75%, due 2009(ii)		125
7.10%, due 2010	**300**	300
6.50%, due 2011	**350**	350
5.40%, due 2013	**200**	200
6.00%, due 2014	**100**	100
4.85%, due 2014(iv)	**350**	
7.10%, due 2016	**300**	300
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**(67)**	(55)
6.85%, due 2032	**200**	200
6.54%, due 2033	**200**	200
8.75%, due 2033	**200**	200
6.05%, due 2034	**200**	200
6.15%, due 2035	**200**	200
5.90%, due 2036	**300**	300
6.45%, due 2039	**200**	200
7.00%, due 2040	**150**	150
5.86%, due 2043	**55**	55
Private placement notes(v)		
6.48%, due 2013 (U.S. $150)	**158**	180
6.86%, due 2015 (U.S. $150)	**158**	181
Long term debt secured by mortgage(vi)		
5.49%, due 2018 (note 13)	**96**	
VIE loans payable(vii) (note 30)	**163**	152
Capital lease obligations(vii) (note 20)	**64**	62
Other	**1**	9
Total long term debt	**6,020**	5,986
Less – amount due within one year	**(343)**	(415)
– amount due on demand (note 17)	**(300)**	(263)
	$ 5,377	$ 5,308

The schedule of repayment of long term debt, inclusive of VIE and other debt, based on maturity, excluding the amount due on demand, is as follows: 2010 – $343; 2011 – $690; 2012 – $38; 2013 – $391; 2014 – $674; thereafter – $3,584.

(i) During 2009, GWL issued $37 (2008 – $43) of Series B Debentures due on demand, which are at a current weighted average interest rate of 0.93%. The Series A, 7.00% and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

(ii) During 2009, GWL's $250 5.90% Medium Term Notes ("MTN") due February 5, 2009 and Loblaw's $125 5.75% MTN due January 22, 2009 matured and were repaid.

(iii) During 2009, GWL repurchased the 12.70% Promissory Notes, due 2030, for an aggregate purchase price of $73. As a result, GWL recorded a loss of $49 in interest expense and other financing charges (see note 6).

(iv) During 2009, Loblaw issued $350 principal amount of unsecured MTN, Series 2-A pursuant to its MTN, Series 2 program. The Series 2-A notes pay a fixed rate of interest of 4.85% payable semi-annually commencing on November 8, 2009 until maturity on May 8, 2014 and are subject to certain covenants. The notes are unsecured obligations of Loblaw and rank equally with all other unsecured indebtedness that has not been subordinated. The Series 2-A notes may be redeemed at the option of Loblaw, in whole at any time or in part from time to time, upon not less than 30 days and not more than 60 days notice to the holders of the notes.

(v) During 2008, Loblaw issued U.S. $300 of fixed rate notes in a private placement debt financing which contains certain financial covenants (see note 23). The notes were issued in two equal tranches of U.S. $150 with 5 and 7 year maturities at interest rates of 6.48% and 6.86%, respectively. Loblaw entered into fixed cross currency swaps, a portion of which are designated as cash flow hedges to manage the foreign currency exchange rate risk. As at year end 2009, $316 (2008 – $361) was recorded in long term debt on the consolidated balance sheet. For further information on the Company's policies with respect to cash flow hedges, refer to note 1.

(vi) During 2009, Loblaw assumed a mortgage of $96 in connection with the purchase of a distribution centre (see note 13), of which $2 is included in long term debt due within one year.

(vii) Pursuant to the requirements of AcG 15, the consolidated balance sheet as at year end 2009 includes $181 (2008 – $179) of loans payable and capital lease obligations of VIEs consolidated by the Company, $37 (2008 – $35) of which is due within one year.

During 2008, GWL exercised its right to redeem all of the remaining outstanding 3% Exchangeable Debentures pursuant to the trust indenture dated June 29, 1998 made between GWL and Computershare Trust Company of Canada by paying cash of $633.08 per each one thousand dollar principal amount of Exchangeable Debentures for $137 plus accrued but unpaid interest of approximately $3, for an aggregate amount including interest of approximately $140. GWL also sold its investment in Domtar (Canada) Paper Inc. for $144 (see note 15) and used these proceeds to settle its obligation under the Exchangeable Debentures. The Company recorded a gain of $7 in operating income in 2008.

During 2008, Loblaw's $390 6.00% MTN due June 2, 2008 matured and was repaid.

See note 27 for the fair value of long term debt.

19. OTHER LIABILITIES

	2009	2008
Accrued benefit plan liability (note 16)	**$ 323**	$ 282
Accrued insurance liabilities	**83**	108
Asset retirement obligation	**11**	14
Stock-based compensation liability (note 24)	**29**	14
Unrealized equity swaps liability (note 26)		29
Unrealized interest rate swap liability (note 26)	**31**	43
Deferred vendor allowances (note 4)	**48**	56
Other	**129**	69
Other liabilities	**$ 654**	$ 615

Included in other above is the Loblaw liability associated with the preferred shares issued by T&T (see note 3).

Total accrued insurance liabilities are $111 (2008 – $153), of which $83 (2008 – $108) is included in other liabilities and $28 (2008 – $45) in accounts payable and accrued liabilities. Included in total accrued insurance liabilities of $111 (2008 – $153) are $69 (2008 – $99) of United States workers' compensation liabilities. The related cost and accrued workers' compensation liabilities are based on actuarial valuations which are dependent on assumptions determined by management. The discount rate used in determining the 2009 workers' compensation cost and liability was 4.0% (2008 – 4.0%). The total workers' compensation liability is equal to the ultimate actuarial loss estimate less any actual losses paid to date. Any change in the workers' compensation liability is recognized immediately in operating income.

The United States workers' compensation cost associated with the workers' compensation liability was $3 in 2009 (2008 – $2).

20. LEASES

As Lessee

Future minimum lease payments relating to the Company's operating leases are as follows:

	Payments due by year							
	2010	2011	2012	2013	2014	Thereafter	**2009 Total**	2008 Total
Operating lease payments	$ 219	$ 200	$ 173	$ 152	$ 131	$ 680	**$ 1,555**	$ 1,674
Sub-lease income	(41)	(37)	(33)	(30)	(23)	(91)	**(255)**	(237)
Net operating lease payments	$ 178	$ 163	$ 140	$ 122	$ 108	$ 589	**$ 1,300**	$ 1,437

As Lessor

Fixed assets on the consolidated balance sheets include cost of properties held for leasing purposes of $755 (2008 – $603) and related accumulated depreciation of $211 (2008 – $173). Rental income for 2009 from these operating leases totaled $47 (2008 – $45) before income taxes and minority interest.

Capital Leases

Capital lease obligations of $64 (2008 – $62) are included on the consolidated balance sheets as at year end (see note 18). These Loblaw capital lease obligations are related to leased properties and equipment of the VIEs that provide distribution and warehousing services. The amount due within one year is $8 (2008 – $8).

21. CAPITAL SECURITIES ($ except where otherwise indicated)

On April 1, 2009, the 10.6 million GWL 5.15% non-voting preferred shares, Series II authorized and outstanding, which were presented as capital securities and included in current liabilities, were redeemed for cash of $25.00 per share, or $265 million in aggregate, plus accrued and unpaid dividends to but excluding April 1, 2009.

During 2008, Loblaw issued 9.0 million of the 12.0 million authorized 5.95% non-voting Second Preferred Shares, Series A, with a face value of $225 million for net proceeds of $218 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.4875 per share per annum which will, if declared, be payable quarterly.

On or after July 31, 2013, Loblaw may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 31, 2013 at $25.75 per share, together with all accrued and unpaid dividends to but not including the redemption date;
On or after July 31, 2014 at $25.50 per share, together with all accrued and unpaid dividends to but not including the redemption date; and
On or after July 31, 2015 at $25.00 per share, together with all accrued and unpaid dividends to but not including the redemption date.

On and after July 31, 2013, Loblaw may, at its option, convert these preferred shares into that number of common shares of Loblaw determined by dividing the then applicable redemption price, together with all accrued and unpaid dividends to but excluding the conversion date, by the greater of $2.00 and 95% of the then current market price of the common shares. On and after July 31, 2015, these outstanding preferred shares are convertible, at the option of the holder, into that number of common shares of Loblaw determined by dividing $25.00, together with accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 and 95% of the then current market price of the common shares. This option is subject to Loblaw's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers. These preferred shares are classified as other financial liabilities and are measured using the effective interest method.

Dividends on capital securities are presented in interest expense and other financing charges in the consolidated statement of earnings (see note 6).

22. SHARE CAPITAL

	2009	2008
Common share capital	**$ 133**	$ 133
Preferred shares, Series I	**228**	228
Preferred shares, Series III	**196**	196
Preferred shares, Series IV	**197**	197
Preferred shares, Series V	**196**	196
Share capital	**$ 950**	$ 950

Common Share Capital (authorized – unlimited)

The common shares issued and outstanding during the year were as follows:

	2009		2008	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning and end of year	**129,073,662**	**$ 133**	129,073,662	$ 133
Weighted average outstanding	**129,073,662**		129,073,662	

Preferred Shares, Series I (authorized – 10.0 million) ($)
GWL has 9.4 million 5.80% non-voting Preferred Shares, Series I outstanding, with a face value of $235 million, 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.

Preferred Shares, Series III (authorized – 10.0 million) ($)
GWL has 8.0 million 5.20% non-voting Preferred Shares, Series III outstanding, with a face value of $200 million, 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 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.

Preferred Shares, Series IV (authorized – 8.0 million) ($)
GWL has 8.0 million 5.20% non-voting Preferred Shares, Series IV outstanding, with a face value of $200 million, 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 October 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 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.

Preferred Shares, Series V (authorized – 8.0 million) ($)
GWL has 8.0 million 4.75% non-voting Preferred Shares, Series V outstanding, with a face value of $200 million, 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 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.

Dividends
The declaration and payment of dividends and the amounts thereof are at the discretion of the Board of Directors, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board of Directors considers relevant from time to time. Over the long term, GWL'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. During 2009, the Board of Directors declared dividends as follows:

($)		**2009**	2008
Common shares		**$ 1.44**	$ 1.44
Preferred shares	– Series I	**$ 1.45**	$ 1.45
	– Series II	**$ 0.32**	$ 1.29
	– Series III	**$ 1.30**	$ 1.30
	– Series IV	**$ 1.30**	$ 1.30
	– Series V	**$ 1.19**	$ 1.19

Normal Course Issuer Bid ("NCIB")
During 2009, GWL renewed its NCIB to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, GWL may purchase its shares at the then market price of such shares. GWL did not purchase any shares under its NCIB during 2009 or 2008.

23. CAPITAL MANAGEMENT

The Company defines capital as net debt[1], capital securities and shareholders' equity.

The Company's objectives when managing capital are to:

- ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- maintain financial capacity and access to capital to support future development of the business;
- minimize the cost of its capital while taking into consideration current and future industry, market and economic risks and conditions; and
- utilize short term funding sources to manage its working capital requirements and long term funding sources to match the long term nature of the fixed assets of the business.

The following ratios are used by the Company to monitor its capital:

	2009	2008[2]
Interest coverage	**2.6x**	3.2x
Net debt[1] to EBITDA[1]	**0.18x**	1.80x
Net debt[1] to equity[1]	**0.04**	0.53

(1) See non-GAAP financial measures in the Company's Management's Discussion and Analysis ("MD&A") beginning on page 51.
(2) Restated – see note 2.

The Company manages debt on a net basis, excluding capital securities, calculated as outlined below. The Company's internal guideline targets a net debt[1] to equity[1] ratio of less than 1:1. This ratio is useful in assessing the amount of leverage employed. These ratios are also calculated from time to time on an alternative basis by management to approximate the methodology of debt rating agencies and other market participants.

Net Debt[1]

The following table details the net debt calculation used in the net debt[1] to equity[1] and the net debt[1] to EBITDA[1] ratios:

	2009	2008
Bank indebtedness	$ 2	$ 93
Short term debt	300	453
Long term debt due within one year	343	415
Long term debt	5,377	5,308
Other liabilities	36	
Fair value of financial derivatives related to the above	(327)	(261)
	5,731	6,008
Less: Cash and cash equivalents	3,368	1,446
Short term investments	1,538	694
Security deposits	348	560
Fair value of financial derivatives related to the above	178	57
	5,432	2,757
Net debt[1]	$ 299	$ 3,251

(1) See non-GAAP financial measures in the Company's MD&A beginning on page 51.

In 2009, the Company revised its definition of net debt[1] to include the fair value of certain financial derivatives, other than those related to commodities, as the Company believes the measure should include all interest bearing financing arrangements.

Capital securities are excluded from the calculation of net debt[1] because the Company at its option can convert the capital securities into common shares. For the purpose of calculating net debt[1], fair values of financial derivatives are not credit value adjusted in accordance with EIC 173 (see note 2). As at year end 2009, the credit value adjustment was $4.

EBITDA[1]

The following table reconciles earnings from continuing operations before minority interest, income taxes, interest, gain on disposal of business and depreciation and amortization ("EBITDA") used in the net debt[1] to EBITDA[1] ratio to Canadian GAAP measures reported in the audited consolidated financial statements:

	2009	2008[2]
Net earnings from continuing operations	$ 127	$ 647
Add (deduct) impact of the following:		
Minority interest	260	222
Income taxes	259	304
Interest expense and other financing charges	363	360
Gain on disposal of business		(335)
Operating income	1,009	1,198
Depreciation and amortization[3]	645	610
EBITDA[1]	$ 1,654	$ 1,808

(1) See non-GAAP financial measures in the Company's MD&A beginning on page 51.
(2) Restated – see note 2.
(3) Includes depreciation of $44 (2008 – $44) included in cost of inventories.

Equity[1]

The following table reconciles equity used in the net debt[1] to equity[1] ratio to Canadian GAAP measures reported in the audited consolidated financial statements.

Equity[1] is calculated as the sum of GWL capital securities and shareholders' equity as follows:

	2009	2008[2]
Capital securities		$ 264
Shareholders' equity	$ 6,942	5,910
Equity[1]	$ 6,942	$ 6,174

(1) See non-GAAP financial measures in the Company's MD&A beginning on page 51.
(2) Restated – see note 2.

The Company monitors its credit ratings as part of its goal to maintain access to capital markets for its liquidity requirements. Should the Company's financial performance and condition deteriorate or downgrades in the Company's credit ratings occur, the Company's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's short term investments as well as its access to external capital to fund its liabilities, including financial liabilities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments in highly rated liquid securities, committed lines of credit and by diversifying the sources and maturity profile of its external capital.

During 2008, Loblaw filed a Short Form Base Shelf Prospectus ("Prospectus") allowing for the potential issue of up to $1 billion of unsecured debentures and/or preferred shares subject to the availability of funding by capital markets. During 2008, Loblaw issued preferred shares (see note 21). During the second quarter of 2009, Loblaw filed a Prospectus Supplement to the Prospectus filed in 2008 to allow for the issuance of up to $775 in unsecured MTN, Series 2. Under this Prospectus Supplement, Loblaw issued $350 of MTN (see note 18).

Covenants and Regulatory Requirements

The committed credit facility which Loblaw entered into during 2008 (see note 17) and the U.S. $300 fixed rate private placement notes which Loblaw issued during 2008 (see note 18) both contain certain financial covenants. The covenants under both agreements include maintaining an interest coverage ratio as well as a leverage ratio, which Loblaw measures on a quarterly basis. These ratios are defined in the respective agreements. As at year end 2009, Loblaw was in compliance with both of these covenants.

Loblaw is also subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), as the primary regulator of PC Bank, and the Central Bank of Barbados, as the primary regulator of Glenhuron, both wholly owned subsidiaries of the Company. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the Bank's economic risks and to meet all regulatory capital requirements as defined by OSFI. PC Bank is subject to the Basel II regulatory capital management framework and has met all applicable capital targets as at year end 2009. Glenhuron is currently regulated under Basel I. Under Basel I, Glenhuron's assets are risk weighted and the minimum ratio of capital to risk weighted assets is 8.0%. Glenhuron's ratio of capital to risk weighted assets met the minimum requirements under Basel I as at year end 2009.

In addition, a wholly owned subsidiary of the Company that engages in insurance related activities exceeded the minimum regulatory capital and surplus requirements as at year end 2009.

24. STOCK-BASED COMPENSATION ($ except table)

The Company maintains various types of stock-based compensation plans, which are described below.

Stock Option Plans

GWL maintains a stock option plan for certain employees. Under this plan, GWL may grant options for up to 7 million of its common shares; however, these stock option plans limit the number of common shares available for stock option grants to a maximum of 5% of outstanding common shares at any time. Stock options have up to a 7-year term, vest 20% or 33% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of GWL's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of GWL at the price specified in the terms of the option agreement, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2009, GWL granted 236,988 (2008 – 222,362) stock options with a weighted average exercise price of $59.65 (2008 – $46.29) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2009, the share appreciation value of a nominal amount (2008 – nil) was paid by the Company on the exercise of 22,527 (2008 – nil) stock options and 67,460 (2008 – 138,753) stock options were forfeited or cancelled.

In 2009 and 2008, GWL did not issue common shares or receive cash consideration on the exercise of stock options.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 13.7 million common shares, which is Loblaw's guideline on the number of stock option grants up to a maximum of 5% of outstanding common shares at any time. Stock options have up to a 7-year term, vest 20% or 33% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of Loblaw's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of Loblaw at the price specified in the terms of the option, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2009, Loblaw granted 2,787,970 (2008 – 3,431,432) stock options with a weighted average exercise price of $31.13 (2008 – $28.99) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2009, the share appreciation value of $1 million (2008 – nil) was paid by Loblaw on the exercise of 127,513 (2008 – nil) stock options and 1,345,301 (2008 – 2,071,528) stock options were forfeited or cancelled.

In 2009 and 2008, Loblaw did not issue common shares or receive cash consideration on the exercise of stock options.

Share Appreciation Right Plan

GWL maintains a share appreciation right plan for certain senior United States employees. Share appreciation rights have up to a 7-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of GWL's common shares on the last trading day prior to the effective date of the grant.

When they are exercised, the employee will receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified right price.

In 2009 and 2008, no share appreciation rights were exercised, and in 2009, 2,000 (2008 – 2,400) share appreciation rights were forfeited or cancelled.

Restricted Share Unit ("RSU") Plans

GWL and Loblaw both maintain a RSU plan for certain senior employees. The RSUs entitle employees to a cash payment after the end of each performance period, of up to 3 years, following the date of the award. The RSU payment will be an amount equal to the weighted average price of a GWL or Loblaw common share on the last three trading days preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

The following is a summary of GWL's and Loblaw's RSU activity during the year:

	GWL		Loblaw	
	2009	2008	**2009**	2008
Outstanding RSUs, beginning of year	**151,769**	169,993	**829,399**	768,687
Granted	**62,706**	58,179	**453,680**	416,294
Cash settled	**(59,423)**	(69,482)	**(204,943)**	(252,479)
Cancelled	**(2,497)**	(6,921)	**(104,785)**	(103,103)
Outstanding RSUs, end of year	**152,555**	151,769	**973,351**	829,399

During 2009, $4 million (2008 – $4 million) and $7 million (2008 – $9 million) was paid on the settlement of GWL and Loblaw RSUs, respectively.

The following table summarizes the Company's cost recognized in operating income related to its stock-based compensation plans, equity derivatives and RSU plans:

($ millions)	**2009**	2008
Stock option plans/share appreciation right plan expense	**$ 7**	$ 8
Equity derivatives gain (note 26)	**(9)**	(22)
Restricted share unit plan expense	**14**	12
Net stock-based compensation expense (income)	**$ 12**	$ (2)

Director Deferred Share Unit Plans

Members of GWL's and Loblaw's Boards of Directors who are not management may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs, the value of which is determined by the market price of GWL or Loblaw common shares at the time the director's annual retainer(s) or fees are earned. Upon termination of Board service, the common shares due to the director, as represented by the DSUs, will be purchased on the open market on the director's behalf. As at year end 2009, GWL had 83,974 (2008 – 59,787) and Loblaw had 110,303 (2008 – 79,939) DSUs outstanding. During 2009, a compensation cost of $3 million (2008 – $2 million) related to these plans was recognized in operating income.

Executive Deferred Share Unit Plan

Under this plan, executives may elect to defer up to 100% of the STIP bonus earned in any year into the EDSU plan, subject to an overall cap of three times the executive's base salary. All EDSUs held by an executive will be paid out in cash by December 15 of the year following the year in which the executive's employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. The number of EDSUs granted in respect of any year will be determined by dividing the STIP bonus that is subject to the EDSU plan election by the value of the GWL or Loblaw common shares on the date the STIP bonus would otherwise be payable. For this purpose, and for purposes of determining the value of an EDSU upon conversion of the EDSUs into cash, the value of the EDSUs will be calculated by using the weighted average of the trading prices of GWL or Loblaw common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date. As at year end 2009 and 2008, there were no EDSUs outstanding.

Employee Share Ownership Plans

GWL and Loblaw maintain ESOPs for their employees which allow employees to acquire GWL and Loblaw common shares through regular payroll deductions of up to 5% of their gross regular earnings. GWL and Loblaw contribute an additional 25% (2008 – 25%) of each employee's contribution to the respective plans. The ESOPs are administered through a trust which purchases GWL and Loblaw common shares on the open market on behalf of employees. During 2009, a compensation cost of $7 million (2008 – $7 million) related to these plans was recognized in operating income.

GWL's stock option and share appreciation right transactions were as follows:

	2009		2008	
	Options/ Rights (number of shares)	**Weighted Average Exercise Price/Share**	Options/ Rights (number of shares)	Weighted Average Exercise Price/Share
Outstanding options/rights, beginning of year	**1,616,344**	**$ 81.94**	1,535,135	$ 87.45
Granted	**236,988**	**$ 59.65**	222,362	$ 46.29
Exercised	**(22,527)**	**$ 46.24**		
Forfeited/cancelled	**(69,460)**	**$ 90.09**	(141,153)	$ 85.69
Outstanding options/rights, end of year[1,2]	**1,761,345**	**$ 79.07**	1,616,344	$ 81.94
Options/rights exercisable, end of year[2]	**883,822**	**$ 91.15**	699,390	$ 94.61

(1) Options outstanding of 1,669,345 (2008 – 1,522,344) represented approximately 1.3% (2008 – 1.2%) of GWL's issued and outstanding common shares, which was within GWL's limit of 5%.

(2) Included in the outstanding balance are 92,000 (2008 – 94,000) share appreciation rights at a weighted average exercise price of $101.03 (2008 – $101.25). Included in the exercisable balance are 84,000 (2008 – 77,200) share appreciation rights at a weighted average exercise price of $100.08 (2008 – $99.12).

The following table summarizes information about GWL's stock option and share appreciation rights outstanding:

	2009				
	Outstanding Options/Rights			**Exercisable Options/Rights**	
Range of Exercise Prices ($)	**Number of Options/ Rights Outstanding**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price/Share**	**Number of Exercisable Options/ Rights**	**Weighted Average Exercise Price/Share**
$46.24 – $59.56	**416,715**	**6**	**$ 53.63**	**19,236**	**$ 46.35**
$62.71 – $75.62	**677,941**	**4**	**$ 72.14**	**268,553**	**$ 72.23**
$93.35 – $111.02[1]	**666,689**	**1**	**$ 102.03**	**596,033**	**$ 101.12**

(1) Included in the outstanding balance are 92,000 share appreciation rights with a weighted average remaining contractual life of 1 year and a weighted average exercise price of $101.03. Included in the exercisable balance are 84,000 share appreciation rights with a weighted average exercise price of $100.08.

25. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables provide further detail regarding the composition of accumulated other comprehensive loss for the years ended December 31, 2009 and December 31, 2008:

	December 31, 2009							
		Foreign Currency Translation Adjustment		**Cash Flow Hedges**		**Available-for-Sale Assets**		**Total**
Balance, beginning of year	**$**	**(334)**	**$**	**2**	**$**	**10**	**$**	**(322)**
Cumulative impact of implementing new accounting standards[1] (note 2)				**(1)**				**(1)**
Foreign currency translation adjustment		**35**						**35**
Reclassification of cumulative foreign currency translation loss to net earnings		**196**						**196**
Net unrealized loss on available-for-sale financial assets[2]						**(14)**		**(14)**
Reclassification of loss on available-for-sale financial assets[3]						**1**		**1**
Net gain on derivatives designated as cash flow hedges[4]				**4**				**4**
Reclassification of loss on derivatives designated as cash flow hedges[5]				**9**				**9**
Balance, end of year	**$**	**(103)**	**$**	**14**	**$**	**(3)**	**$**	**(92)**

(1) Net of income taxes recovered of $1 and minority interest of $1.
(2) Net of income taxes recovered of $1 and minority interest of $9.
(3) Net of income taxes recovered of $3 and minority interest of $1.
(4) Net of income taxes of $8 and minority interest of $3.
(5) Net of income taxes recovered of $10 and minority interest of $1.

	December 31, 2008							
		Foreign Currency Translation Adjustment		Cash Flow Hedges		Available-for-Sale Assets		Total
Balance, beginning of year	$	(1,011)	$	14	$	(2)	$	(999)
Foreign currency translation adjustment		677						677
Net unrealized gain on available-for-sale financial assets[1]						25		25
Reclassification of gain on available-for-sale financial assets[2]						(13)		(13)
Net gain on derivatives designated as cash flow hedges[3]				4				4
Reclassification of gain on derivatives designated as cash flow hedges[4]				(16)				(16)
Balance, end of year	$	(334)	$	2	$	10	$	(322)

(1) Net of income taxes of $1 and minority interest of $15.
(2) Net of income taxes of $5 and minority interest of $8.
(3) Net of income taxes of $17 and minority interest of $8.
(4) Net of income taxes of $19 and minority interest of $11.

During 2009, the foreign currency translation adjustment included in accumulated other comprehensive loss decreased by $231 (2008 – $677) from year end 2008.

The Company reversed a cumulative foreign currency translation loss of $196 into operating income in 2009 associated with the U.S. net investment summarized as follows:

- A loss of $34 was reversed after the sale of the U.S. fresh bakery business on January 21, 2009, when Dunedin and certain of its affiliates became integrated foreign subsidiaries.
- A loss of $52 was reversed related to a reduction in the Company's U.S. net investment in self-sustaining foreign operations.
- An additional loss of $110 associated with the Company's net investment in the U.S. fresh bakery business was reversed and included in the results of discontinued operations.

The remaining decrease in the foreign currency translation adjustment of $35 resulted primarily from the depreciation of the Canadian dollar relative to the U.S. dollar in the period prior to the sale of the U.S. fresh bakery business, partially offset by the appreciation of the Canadian dollar thereafter. The 2008 change in the foreign currency translation adjustment of $677 was due to the depreciation of the Canadian dollar during 2008.

An estimated gain of $5 (2008 – loss of $6), net of income taxes and minority interest, recorded in accumulated other comprehensive loss related to interest rate swaps as at year end 2009 is expected to be reclassified to net earnings during the next 12 months. Remaining amounts on the interest rate swaps will be reclassified to net earnings over periods of up to 2 years.

A gain of $3 (2008 – $7), net of income taxes and minority interest, recorded in accumulated other comprehensive loss on cross currency swaps will be reclassified to net earnings over the next 12 months but will be partially offset by the losses reclassified from accumulated other comprehensive loss to net earnings on available-for-sale assets. Remaining amounts on the cross currency swaps will be reclassified to net earnings over periods of up to 4 years.

A loss of nil (2008 – $6) on commodity derivatives is expected to be reclassified from accumulated other comprehensive loss to net earnings during the next 12 months.

26. FINANCIAL DERIVATIVE INSTRUMENTS

A summary of the Company's outstanding derivative instruments is as follows:

	Notional Amounts Maturing in							
	2010	2011	2012	2013	2014	Thereafter	**2009 Total**	2008 Total
Cross currency swap receivable	$ 161	$ 56	$ 166	$ 75	$ 145	$ 546	**$ 1,149**	$ 1,181
Cross currency swap payable				$ 148		$ 148	**$ 296**	$ 296
Interest rate swaps receivable	$ 50	$ 200					**$ 250**	$ 390
Interest rate swaps payable				$ 150			**$ 150**	$ 150
Equity swaps and forwards	$ 181					$ 92	**$ 273**	$ 435
Equity forward associated with the forward sale of Loblaw common shares						$ 771	**$ 771**	$ 735
Electricity forward contract	$ 9	$ 8					**$ 17**	$ 25

Notional amounts do not represent assets or liabilities and are therefore not recorded on the consolidated balance sheet. The notional amounts are used in order to calculate the payments to be exchanged under the contracts.

Cross Currency Swaps

Glenhuron entered into cross currency swaps (see note 28) to exchange U.S. dollars for $1,149 (2008 – $1,181) Canadian dollars, which mature by 2017. Cross currency swaps totaling $250 (2008 – $320) are designated in a cash flow hedge and the remaining undesignated $899 (2008 – $861) are classified as held-for-trading financial assets. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at year end 2009, a cumulative unrealized foreign currency exchange rate receivable of $167 (2008 – $36) was recorded in other assets. In addition, a credit value adjustment of $4 was recorded in other assets.

In 2008, Loblaw entered into fixed cross currency swaps to exchange $296 Canadian dollars for U.S. $300, which mature by 2015. A portion of these cross currency swaps are designated in a cash flow hedge to manage the foreign currency exchange risk related to a part of Loblaw's fixed rate U.S. dollar private placement notes (see note 18).

Interest Rate Swaps

Glenhuron maintains interest rate swaps (see note 28) that convert a notional $250 (2008 – $390) of floating rate available-for-sale cash and cash equivalents, short term investments and security deposits to average fixed rate investments at 5.11% (2008 – 5.39%), which are part of a hedging relationship that matures by 2011. As at year end 2009, the fair value of these interest rate swaps of $15 (2008 – $21) was recorded in other assets (see note 15) and the unrealized fair value gain of $9 (2008 – $13) was deferred, net of income taxes and minority interest, in accumulated other comprehensive loss. In addition, a nominal credit value adjustment was recorded in other assets. When realized, these unrealized gains are reclassified to net earnings.

Loblaw also maintains interest rate swaps which are not part of a hedging relationship. At year end 2009, the fair value of these interest rate swaps of $31 (2008 – $43) was recorded in other liabilities (see note 19). In addition, a nominal credit value adjustment was recorded in other liabilities.

Equity Swaps and Forwards **($, except where otherwise indicated)**

As at year end 2009, GWL had cumulative outstanding equity swaps in its common shares of 1.7 million (2008 – 1.7 million) at an average forward price of $103.17 (2008 – $103.17). As at year end 2009, Glenhuron had cumulative outstanding equity forwards to buy 1.5 million (2008 – 4.8 million) Loblaw common shares at a cumulative average forward price of $66.25 (2008 – $54.46), including $10.03 (2008 – $9.59) per common share of interest expense, net of dividends, that has been recognized in net earnings from continuing operations and will be paid at termination. These swaps and forwards provide for settlement of net amounts owing between the respective company and its counterparty in cash or common shares. As at year end 2009, the fair value of GWL's swaps of $61 million (2008 – $44 million) and nil (2008 – $29 million) was recorded in accounts payable and accrued liabilities and in other liabilities, respectively (see note 19). Cumulative interest net of dividends and unrealized market loss on Glenhuron's forwards of $48 million (2008 – $92 million) was recorded in accounts payable and accrued liabilities. During 2009, a fair value gain of $9 million (2008 – $22 million) was recorded in operating income related to these equity swaps and forwards (see note 24). During 2009, Glenhuron paid $55 million to terminate equity forwards representing 3.3 million Loblaw common shares, which led to the extinguishment of a corresponding portion of the associated liability.

In 2001, WHL entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of $80.28 (2008 – $76.52) per Loblaw common share as at year end 2009. The forward matures in 2031 and will be settled in cash as follows: WHL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. As at year end 2009, the fair value of this equity forward sale agreement based on 9.6 million Loblaw common shares of $446 million (2008 – $397 million) was recorded in other assets (see note 15). During 2009, a fair value gain of $13 million (2008 – fair value loss of $11 million) was recorded in interest expense and other financing charges related to this forward (see note 6).

Commodity Derivatives

The Company uses commodity futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices.

As at year end 2009, the fair value of Weston Foods' commodity futures of negative $5 (2008 – $33) was recorded in accounts receivable. During 2009, a fair value gain of $23 (2008 – loss of $40) was recorded in operating income relating to futures which were not designated in a cash flow hedge while a fair value loss of nil (2008 – $8) was deferred in accumulated other comprehensive loss relating to futures which were designated in a cash flow hedge. As at year end 2009, the fair value of the commodity options of a nominal amount (2008 – negative $5) was recorded in accounts receivable and a fair value gain of $5 (2008 – loss of $7) was recorded in operating income.

Loblaw entered into an electricity forward contract to minimize price volatility and to maintain a portion of its electricity costs in Alberta, Canada at approximately 2006 rates. This electricity forward contract has an initial term of five years and expires in December 2011. Loblaw is required to measure its electricity forward contract at fair value. As at year end 2009, the fair value of this forward contract of $3 (2008 – $7) was recorded in other liabilities (2008 – other assets). During 2009, a loss in value of $10 (2008 – gain of $2) was recorded in operating income.

Loblaw entered into exchange traded futures contracts and options contracts to minimize cost volatility on fuel prices. Futures contracts establish a fixed cost on a portion of Loblaw's fuel exposure and option contracts typically provide protection against a range of cost outcomes. As at year end 2009, Loblaw had nil (2008 – $4) recorded in accounts payable and accrued liabilities related to the above contracts.

Foreign Exchange Forwards

During 2009, Loblaw entered into forward contracts to hedge a portion of its U.S. dollar fixed asset purchases. As at year end 2009, a nominal fair value of the outstanding forward contracts was included in accounts payable and accrued liabilities and accordingly a nominal loss was recorded in operating income.

27. FAIR VALUES OF FINANCIAL INSTRUMENTS

Derivative Instruments

The fair value of derivative instruments is the estimated amount that the Company would receive or pay to terminate the instrument at the reporting date. The fair values have been determined by reference to prices available from the markets on which the instruments trade and prices provided by counterparties where available, or are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies.

Other Financial Instruments

The fair values of cash and cash equivalents, short term investments, security deposits, accounts receivable, accounts payable and accrued liabilities and short term borrowings approximate their carrying values given their short term maturities. The fair values of long term debt and capital securities were estimated based on the Company's current incremental borrowing rate for similar types of borrowing arrangements or where applicable, quoted market prices.

The following tables provide a comparison of carrying and fair values for each classification of financial instruments as at December 31, 2009 and December 31, 2008 and an analysis of financial instruments carried at fair value by fair value hierarchy level.

The different fair value hierarchy levels have been defined as follows:

- Fair value level 1: determined using quoted prices (unadjusted) in active markets for identical assets or liabilities
- Fair value level 2: determined using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Fair value level 3: determined using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2009

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits			$ 5,062	$ 192			$ 5,254	$ 5,254
Derivatives included in accounts receivable		$ (5)					(5)	(5)
Other receivables			13		$ 843		856	856
Derivatives included in other assets	$ 83	562					645	645
Total financial assets	$ 83	$ 557	$ 5,075	$ 192	$ 843		$ 6,750	$ 6,750
Fair value level 1		$ (5)						$ (5)
Fair value level 2	$ 83	561	$ 5,062	$ 192				5,898
Fair value level 3		1	13					14
Total fair value	$ 83	$ 557	$ 5,075	$ 192				$ 5,907
Short term borrowings						$ 302	$ 302	$ 302
Derivatives included in accounts payable and accrued liabilities		$ 109					109	109
Other accounts payable and accrued liabilities						3,470	3,470	3,470
Long term debt						5,720	5,720	6,066
Derivatives included in other liabilities		34				7	41	41
Capital securities						220	220	244
Total financial liabilities		$ 143				$ 9,719	$ 9,862	$ 10,232
Fair value level 1								
Fair value level 2		$ 143						$ 143
Fair value level 3								
Total fair value		$ 143						$ 143

The equity investment in Loblaw franchises is measured at a cost of $75 because quoted market prices in an active market are not available. These investments are classified as available-for-sale, and Loblaw has no intention of disposing of these equity investments.

As at December 31, 2008

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits			$ 2,408	$ 292			$ 2,700	$ 2,700
Derivatives included in accounts receivable	$ (5)	$ (33)					(38)	(38)
Other receivables			14		$ 982		996	996
Available-for-sale securities included in other assets				7			7	7
Derivatives included in other assets	98	442					540	540
Total financial assets	$ 93	$ 409	$ 2,422	$ 299	$ 982		$ 4,205	$ 4,205
Short term borrowings						$ 546	$ 546	$ 546
Derivatives included in accounts payable and accrued liabilities		$ 136					136	136
Other accounts payable and accrued liabilities						2,985	2,985	2,985
Long term debt						5,723	5,723	5,180
Derivatives included in other liabilities		85				7	92	92
Capital securities						483	483	479
Total financial liabilities		$ 221				$ 9,744	$ 9,965	$ 9,418

The equity investment in Loblaw franchises is measured at a cost of $72 because quoted market prices in an active market are not available. These investments are classified as available-for-sale, and Loblaw has no intention of disposing of these equity investments.

The financial instruments classified as fair value level 3 are as follows:

- The retained interest from the securitization of PC Bank receivables, for which a reconciliation and sensitivity analysis are included in note 10.
- The fair value of the Loblaw embedded foreign currency derivative of $1 included in other assets (2008 – $3 included in other liabilities), of which the fair value gain of $4 (2008 – loss of $4) was recognized in operating income. A 100 basis point increase (decrease) in foreign currency exchange rates would result in a $1 gain (loss) in fair value.

There were no significant transfers between the fair value hierarchy levels during 2009.

During 2009, the net unrealized and realized loss on held-for-trading financial assets designated as held-for-trading, recognized in net earnings from continuing operations before income taxes and minority interest was $120 (2008 – gain of $158). In addition, the net unrealized and realized gain on held-for-trading financial assets and financial liabilities, including non-financial derivatives, required to be classified as held-for-trading, recognized in net earnings from continuing operations before income taxes and minority interest was $108 (2008 – loss of $252).

28. FINANCIAL RISK MANAGEMENT

The Company is exposed to the following risks as a result of holding and issuing financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the exposures are managed.

Credit Risk

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations. Exposure to credit risk relates to derivative instruments, cash equivalents, short term investments, security deposits, pension assets held in the Company's defined benefit plans, PC Bank's credit card receivables, other receivables from Weston Foods' customers and suppliers and Loblaw's independent franchisees, associated stores and independent accounts.

The Company may be exposed to losses if a counterparty to the Company's financial or non-financial derivative agreements fails to fulfill its obligations. Potential counterparty risk and losses are limited to the net amounts recoverable under such derivative agreements with any specific counterparty. These risks are further reduced by entering into agreements with counterparties that have a minimum long term "A" credit rating from a recognized credit rating agency and by placing risk adjusted limits on exposure to any single counterparty for financial derivative agreements. Internal policies, controls and reporting processes are in place which require ongoing assessment and corrective action, if necessary, with respect to derivative transactions.

Credit risk associated with cash equivalents, short term investments and security deposits results from the possibility that a counterparty may default on the repayment of a security. Policies and guidelines that require issuers of permissible investments to have a minimum long term "A" credit rating from a recognized credit rating agency and that specify minimum and maximum exposures to specific industries, issuers and types of investment instruments mitigate credit risk. These investments are purchased and held directly in custody accounts and have limited exposure to third-party money market portfolios and funds.

Credit risk from PC Bank's credit card receivables, receivables from Weston Foods' customers and suppliers and Loblaw's independent franchisees, associated stores and independent accounts results from the possibility that customers may default on their payment obligations. PC Bank manages the credit card receivable risk by employing stringent credit scoring techniques, actively monitoring its credit card portfolio and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers.

Receivables from Weston Foods' customers and suppliers and Loblaw's independent franchisees, associated stores and independent accounts are actively monitored and counterparties are assessed for credit risk on an ongoing basis.

The Company's maximum exposure to credit risk as it relates to derivative instruments is approximated by the positive fair market value of the derivatives on the balance sheet (see note 27).

See note 11 for additional information on the credit quality performance of credit card receivables and other receivables from Weston Foods' customers, Loblaw's independent franchisees, associated stores and independent accounts.

Market Risk

Market risk is the risk of loss that may arise from changes in factors such as foreign currency exchange rates, commodity prices, interest rates and common share prices and the impact these factors may have on other counterparties.

Foreign Currency Exchange Rate Risk

As at year end 2009, the Company had $3.4 billion (2008 – $1.4 billion) in cash and cash equivalents, $1,538 (2008 – $694) in short term investments and $348 (2008 – $560) in security deposits, of which $2.2 billion (2008 – $2.1 billion) is denominated in U.S. dollars and is held primarily by Dunedin and certain of its affiliates and Glenhuron.

The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in self-sustaining foreign operations in the United States, and its investment in integrated foreign subsidiaries through Dunedin and certain of its affiliates. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to exchange rate gains and losses. Prior to the sale of the U.S. fresh bakery business, all of the Company's (excluding Loblaw's) U.S. dollar denominated net assets were held in self-sustaining foreign operations. Exchange rate gains and losses due to the translation of these self-sustaining foreign operations' net assets were recorded in accumulated other comprehensive loss. After the sale of the U.S. fresh bakery business in 2009, Dunedin and certain of its affiliates became integrated foreign subsidiaries. As a result, gains and losses arising from the translation of the U.S. dollar denominated assets of these integrated foreign subsidiaries are included in operating income.

Accordingly, operating income includes $225 (2008 – nil) of foreign exchange losses due to the effect of foreign exchange on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates. The Company estimates that based on the U.S. net assets held in integrated subsidiaries at the end of 2009, an appreciation (depreciation) in the Canadian dollar of $0.01 relative to the U.S. dollar would have a negative (positive) impact on operating income of $12.

Unrealized foreign exchange gains associated with the effect of foreign exchange on the Company's (excluding Loblaw's) U.S. net investment held in self-sustaining foreign operations decreased accumulated other comprehensive loss by $35 (2008 – $677) during 2009.

Revenues and expenses of these integrated and self-sustaining foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. An appreciating Canadian dollar relative to the U.S. dollar will negatively impact year-over-year changes in reported sales, operating income and net earnings, while a depreciating Canadian dollar relative to the U.S. dollar will have the opposite impact.

Loblaw is exposed to foreign currency exchange rate variability, primarily on U.S. dollar denominated cash and cash equivalents, short term investments and security deposits held by Glenhuron, foreign denominated and foreign currency based purchases in accounts payable and accrued liabilities, and U.S. dollar private placement notes included in long term debt. Loblaw and Glenhuron have cross currency swaps that partially offset their respective exposure to fluctuations in foreign currency exchange rates. Loblaw designates a portion of the cross currency swaps in a cash flow hedge of the exposure to fluctuations in the foreign currency exchange rate on a portion of its U.S. dollar denominated cash equivalents, short term investments and security deposits. The remaining undesignated cross currency swaps partially offset fluctuations in the foreign currency exchange rate on the remaining U.S. dollar denominated cash and cash equivalents, short term investments and security deposits and the U.S. dollar private placement notes.

During 2009, Loblaw's unrealized foreign currency exchange loss of $25 (2008 – gain of $50) before income taxes and minority interest, related to cash and cash equivalents, short term investments and security deposits classified as available-for-sale was recognized in accumulated other comprehensive loss and was partially offset by the unrealized foreign currency exchange rate gain of $28 (2008 – loss of $51) before income taxes and minority interest relating to the designated cross currency swaps also deferred in accumulated other comprehensive loss. The unrealized foreign currency exchange loss of $121 (2008 – gain of $160) on the designated held-for-trading cash and cash equivalents, short term investments and security deposits is partially offset in operating income by the unrealized foreign currency exchange rate gain of $117 (2008 – loss of $157) relating to the cross currency swaps which are not designated in a cash flow hedge. During 2009, Loblaw realized a foreign currency exchange loss of $14 (2008 – gain of $26) relating to cross currency swaps that matured or were terminated.

During 2009, Loblaw recognized in operating income an unrealized foreign currency exchange gain of $45 (2008 – loss of $65) related to U.S. $300 fixed rate private placement notes. This was partially offset by both the effective portion of the designated cross currency swaps that was reclassified from other comprehensive income to operating income and the fair value gain on the cross currency swaps that are not designated in a hedging relationship. At the inception of the cash flow hedge, a nominal amount of ineffectiveness was recognized in operating income.

Commodity Price Risk

Weston Foods costs are directly impacted by fluctuations in the price of commodities such as wheat, flour, sugar, vegetable oil, cocoa, natural gas and fuel. Loblaw is exposed to increases in the prices of commodities in operating its stores and distribution centres, as well as the indirect link of commodities to its consumer products. To manage a portion of this exposure, Loblaw uses purchase commitments for a portion of its needs for certain consumer products that may be commodities based and Loblaw expects to take delivery of these consumer products in the normal course of business. In addition, both Weston Foods and Loblaw use financial and non-financial derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices. The Company estimates that a 10% increase (decrease) in relevant commodity prices, with all other variables held constant, would result in a net gain (loss) of $8 in net earnings before income taxes and minority interest.

Interest Rate Risk

Interest rate risk arises from the issuance of short term debt and equity derivatives, net of cash and cash equivalents, short term investments and security deposits. The Company is exposed to changes in short term interest rate volatility which are offset partly by Glenhuron's and Loblaw's interest rate swaps. The Company estimates that a 100 basis point increase (decrease) in interest rates, with all other variables held constant, would result in a decrease (increase) of $51 in interest expense and other financing charges.

Common Share Price Risk

GWL and Loblaw issue stock-based compensation to employees in the form of stock options and RSUs based on their respective underlying common shares. Consequently, operating income is negatively impacted when the common share prices increase and positively impacted when the common share prices decline. The equity derivatives provide a partial offset to fluctuations in stock-based compensation cost. The equity derivatives allow for settlement in cash, common shares or net settlement. These derivatives change in value as the market prices of the respective underlying common shares change and provide a partial offset to fluctuations in stock-based compensation cost, including RSU plan expense. The partial offset between stock-based compensation costs, including RSU plan expense, and the equity derivatives is more effective when the market price of the respective underlying common shares exceeds the exercise price of the employee stock options. When the market price of the respective underlying common shares is lower than the exercise price of the employee stock options, these equity derivatives provide a partial offset only to the RSU plan expense. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised stock options and RSUs, their vesting schedules relative to the number of respective underlying common shares on the equity derivatives and the level of fluctuations in the market price of the respective underlying common shares. A one dollar increase (decrease) in the market value of the respective underlying shares of the equity derivatives, with all other variables held constant, would result in a gain (loss) of $3 in net earnings before income taxes and minority interest.

In addition, the obligation of WHL under the equity forward sale agreement based on 9.6 million Loblaw common shares, which matures in 2031, is secured by the underlying Loblaw common shares. If the market value of the underlying Loblaw common shares exceeds the obligation of WHL under this forward, a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity. At maturity, if the forward price is greater than the market price of the Loblaw shares, WHL will receive a cash amount equal to the difference. If the forward price is less than the market price of the Loblaw shares, WHL will pay a cash amount equal to the difference. A one dollar increase (decrease) in the market value of the underlying shares of the equity forward, with all other variables held constant, would result in a loss (gain) of $10 in net earnings before income taxes and minority interest. Any cash paid under the forward contract could be offset by the sale of Loblaw common shares.

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

Should the Company's financial performance and condition deteriorate or downgrades in the Company's credit ratings occur, the Company's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's short term investments as well as its access to external capital to fund its liabilities, including financial liabilities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments in highly rated liquid securities, committed lines of credit and by diversifying the sources and maturity profile of its external capital.

In March 2011, $500 of credit card receivables-backed notes issued by Eagle will mature. The notes were issued by Eagle to fund the purchase of an interest in PC Bank originated credit card receivables. An accumulation period that requires PC Bank to set aside cash collections will begin approximately 6 months prior to the maturity of the notes, or at such earlier or later date declared by the Trust. PC Bank and Loblaw expect to have sufficient access to short term liquidity to fund the accumulation and long term funding and securitization facilities to replace or refinance this facility.

The following are the undiscounted contractual maturities of significant financial liabilities as at December 31, 2009:

	2010	2011	2012	2013	2014	Thereafter(5)	Total
Interest rate swaps payable(1)	$ 13	$ 13	$ 13	$ 5			$ 44
Equity swaps and forwards(2)	181					$ 92	273
Long term debt including fixed interest payments(3)	662	978	283	621	$ 883	7,015	10,442
Other liabilities(4)	5				36		41
	$ 861	$ 991	$ 296	$ 626	$ 919	$ 7,107	$ 10,800

(1) Based on the pay fixed interest which will be partially offset by the floating interest received.
(2) Based on the average cost base as at December 31, 2009.
(3) Based on the maturing face values and annual interest for each instrument as well as annual payment obligations for VIEs, mortgages and capital leases.
(4) Contractual amount of Loblaw's foreign exchange forwards and the contractual obligation related to certain other liabilities.
(5) Loblaw's capital securities and their related dividends have been excluded as Loblaw is not contractually obligated to pay these amounts.

The Company's bank indebtedness, short term debt and accounts payable and accrued liabilities are short term in nature, which are due within the next 12 months, and thus not included above.

29. CONTINGENCIES, COMMITMENTS AND GUARANTEES

The Company is involved in, and potentially subject to, various claims by third parties arising out of the normal course and conduct of its business including, but not limited to, product liability, labour and employment, regulatory and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal, provincial and state tax authorities relating to income, capital and commodity taxes and as a result of these audits may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to these consolidated financial statements, with the exception of the items disclosed in the Legal Proceedings section below.

As at year end 2009, the Company has committed approximately $76 (2008 – $51) with respect to capital investment projects such as the construction, expansion and renovation of buildings and the purchase of real property.

The Company establishes standby letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs and performance guarantees. The aggregate gross potential liability related to these standby letters of credit is approximately $375 (2008 – $413), a portion of which is recorded on the consolidated balance sheet. Other standby letters of credit related to the financing program for Loblaw's independent franchisees and securitization of PC Bank's credit card receivables have been identified as guarantees and are discussed further in the Guarantees section below.

Guarantees

The Company has provided to third parties the following significant guarantees as defined pursuant to AcG 14, "Disclosure of Guarantees".

Independent Funding Trust

Certain independent franchisees of Loblaw obtain financing through a structure involving independent trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These trusts are administered by a major Canadian chartered bank. The gross principal amount of loans issued to Loblaw's independent franchisees outstanding as at year end 2009 was $390 (2008 – $388) including $163 (2008 – $152) of loans payable by VIEs consolidated by the Company. Based on a formula, Loblaw has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trust equal to approximately 15% (2008 – 15%) of the principal amount of the loans outstanding at any point in time, $66 (2008 – $66) as at year end 2009. The standby letter of credit has not been drawn upon. This credit enhancement allows the independent funding trust to provide favourable financing terms to Loblaw's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to Loblaw and draw upon this standby letter of credit. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

During the second quarter of 2009, the $475, 364-day revolving committed credit facility was renewed. This facility has a further 12-month repayment term upon maturity and is the source of funding to the independent trusts. The new financing structure has been reviewed and Loblaw determined there were no additional VIEs to consolidate as a result of this financing. In accordance with Canadian GAAP, the financial statements of the independent funding trust are not consolidated with those of the Company.

Standby Letters of Credit
Standby letters of credit for the benefit of independent trusts with respect to the credit card receivables securitization program of PC Bank have been issued by major Canadian chartered banks. These standby letters of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. Loblaw has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements, which represents 9% (2008 – 9%) on a portion of the securitized credit card receivables amount, is approximately $116 (2008 – $116) (see note 10).

Lease Obligations
In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate $41 (2008 – $63).

Indemnification Provisions
The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, and in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representations and warranties or with future claims for certain liabilities, including liabilities related to tax and environmental matters. Indemnities were provided to the purchasers of the Company's dairy and bottling operations and the U.S. fresh bakery business. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. Indemnification provisions could result in future cash outflows and statement of earnings charges. The Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Legal Proceedings
In 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 New Domtar. The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares. 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. GWL believes that a price adjustment in the amount of $110 is payable to it by Domtar and it has demanded payment of such amount from Domtar. Domtar's position is that the purchase price adjustment does not apply because of the application of an exception contained in the SPA. GWL has commenced an action against Domtar for $110. The parties have exchanged legal pleadings.

The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings and claims is uncertain. However, based on information currently available, these proceedings and claims, individually and in the aggregate, are not expected to have a material impact on the Company.

30. VARIABLE INTEREST ENTITIES

Pursuant to AcG 15, Loblaw consolidates all VIEs for which it is the primary beneficiary. AcG 15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIEs' expected losses or that entitle it to receive a majority of the VIEs' expected residual returns or both. Loblaw has identified the following significant VIEs:

Independent Franchisees

Loblaw enters into various forms of franchise agreements that generally require the independent franchisee to purchase inventory from Loblaw and pay certain fees in exchange for services provided by Loblaw and for the right to use certain trademarks and licenses owned by Loblaw. Independent franchisees generally lease the land and building from Loblaw, and when eligible, may obtain financing through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixtures and equipment (see note 29). These trusts are administered by a major Canadian chartered bank. Under the terms of certain franchise agreements, Loblaw may also lease equipment to independent franchisees. Independent franchisees may also obtain financing through operating lines of credit with traditional financial institutions or through issuing preferred shares or notes payable to Loblaw. Loblaw monitors the financial condition of its independent franchisees and provides for estimated losses or write-downs on its accounts and notes receivable or investments when appropriate.

As at year end 2009, 166 (2008 – 154) of Loblaw's independent franchise stores met the criteria for a VIE and were consolidated pursuant to AcG 15.

Warehouse and Distribution Agreements

Loblaw has warehouse and distribution agreements with third-party entities to provide to Loblaw distribution and warehousing services from dedicated facilities. Loblaw has no equity interest in these third-party entities; however, the terms of the agreement with the third-party entities are such that Loblaw has determined that the third-party entities meet the criteria for a VIE that requires consolidation by Loblaw. The impact of the consolidation of the warehouse and distribution entities was not material.

Accordingly, the Company has included the results of these independent franchisees and these third-party entities that provide distribution and warehousing services in its consolidated financial statements. The consolidation of these VIEs by the Company does not result in any change to its tax, legal or credit risks, nor does it result in the Company assuming any obligations of these third parties.

Independent Trust

Loblaw has also identified that it holds variable interests, by way of standby letters of credit in independent trusts which are used to securitize credit card receivables for PC Bank. In these securitizations, PC Bank sells a portion of its credit card receivables to the independent trust in exchange for cash. Although these independent trusts have been identified as VIEs, it was determined that Loblaw is not the primary beneficiary and therefore these VIEs are not subject to consolidation by the Company. The Company's maximum exposure to loss as a result of its involvement with these independent trusts is disclosed in note 29.

31. 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. In 2009, rental payments to Wittington amounted to approximately $3 (2008 – $3).

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 any accompanying agreements do not have any material impact on the Company.

32. SEGMENT INFORMATION

The Company has two reportable operating segments: Weston Foods and Loblaw. 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. The Loblaw operating segment, which is operated by Loblaw and its subsidiaries, is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial products and services.

The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies. The Company measures each reportable operating segment's performance based on operating income. Neither reportable operating segment is reliant on any single external customer.

	2009	2008
Sales		
Weston Foods	**$ 1,686**	$ 2,197
Loblaw	**30,735**	30,802
Intersegment	**(601)**	(911)
Consolidated	**$ 31,820**	$ 32,088
Operating Income		
Weston Foods	**$ 123**	$ 154
Loblaw(1)	**1,197**	1,044
Other(2)	**(311)**	
Consolidated	**$ 1,009**	$ 1,198
Depreciation and Amortization		
Weston Foods	**$ 56**	$ 60
Loblaw(1)	**589**	550
Consolidated	**$ 645**	$ 610
Total Assets		
Weston Foods	**$ 1,674**	$ 2,892
Loblaw(1)	**15,151**	14,083
Other(3)	**3,318**	
Discontinued Operations		2,588
Consolidated	**$ 20,143**	$ 19,563
Fixed Assets and Goodwill Purchases		
Weston Foods	**$ 40**	$ 57
Loblaw	**1,127**	751
Consolidated	**$ 1,167**	$ 808

(1) Restated for 2008 – see note 2.

(2) After the sale of the U.S. fresh bakery business on January 21, 2009, Dunedin and certain of its affiliates became integrated foreign subsidiaries. On the date of the sale, the cumulative foreign currency translation loss of $34 associated with Dunedin and certain of its affiliates, which was previously reflected in accumulated other comprehensive loss, was reversed and included in operating income. Subsequent to January 21, 2009, gains and losses arising from the translation of the U.S. dollar denominated assets of these integrated foreign subsidiaries are included in operating income. As a result, operating income for 2009 included $225 (2008 – nil) of foreign exchange losses associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates. In addition, during the fourth quarter of 2009, due to an internal reorganization, a reduction in the Company's U.S. net investment in self-sustaining foreign operations resulted in the reversal of an additional cumulative foreign currency translation loss of $52 into operating income.

(3) Other includes cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates.

The Company operates primarily in Canada and the United States.

		2009		2008
Sales (excluding intersegment)				
Canada	**$**	**31,126**	$	31,461
United States		**694**		627
Consolidated	**$**	**31,820**	$	32,088
Fixed Assets and Goodwill				
Canada	**$**	**9,974**	$	9,302
United States		**241**		356
Consolidated	**$**	**10,215**	$	9,658