Management's Discussion and Analysis

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("GWL") and its subsidiaries (collectively, the "Company") should be read in conjunction with the consolidated financial statements and the accompanying notes on pages 67 to 123 of this Annual Report. The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. These consolidated financial statements include the accounts of the Company and variable interest entities ("VIEs") that the Company is required to consolidate in accordance with Accounting Guideline ("AcG") 15, "Consolidation of Variable Interest Entities". A Glossary of terms and ratios used throughout this Annual Report can be found beginning on page 126. The information in this MD&A is current to March 2, 2011, unless otherwise noted.

1. FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Words such as "anticipate", "expect", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events.

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including, but not limited to:

- the possibility that the Company's plans and objectives will not be achieved;
- changes in economic conditions including the rate of inflation or deflation and changes in interest and foreign currency exchange rates;
- changes in consumer spending and preferences;
- heightened competition, whether from new competitors or current competitors;
- the availability and increased costs relating to raw materials, ingredients and utilities, including electricity and fuel;
- changes in the Company's or its competitors' pricing strategies;
- failure of the Company's franchised stores to perform as expected;
- failure to realize sales growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including investments in the Company's information technology systems, supply chain investments and other cost reduction initiatives, or unanticipated results from these initiatives;
- the inability of the Company to successfully implement its infrastructure and information technology components of its plan;
- the inability of the Company's information technology infrastructure to support the requirements of the Company's business;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure to execute successfully and in a timely manner the Company's major initiatives, including the implementation of strategies and introduction of innovative and reformulated products or new and renovated stores;
- unanticipated results associated with the Company's strategic initiatives, including the impact of acquisitions or dispositions of businesses on the Company's future revenues and earnings;
- the inability of the Company's supply chain to service the needs of the Company's stores;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements which could lead to work stoppages;
- changes to and failure to comply with the legislative/regulatory environment in which the Company operates, including failure to comply with environmental laws and regulations;

- the adoption of new accounting standards and changes in the Company's use of accounting estimates;
- fluctuations in the Company's earnings due to changes in the value of stock-based compensation and equity derivative contracts relating to GWL and Loblaw Companies Limited ("Loblaw") common shares;
- changes in the Company's income, commodity and other tax liabilities including changes in tax laws or future assessments;
- reliance on the performance and retention of third-party service providers, including those associated with the Company's supply chain and apparel business;
- public health events;
- risks associated with product defects, food safety and product handling;
- the inability of the Company to collect on its credit card receivables;
- any requirement of the Company to make contributions to its funded defined benefit pension plans in excess of those currently contemplated;
- the inability of the Company to attract and retain key executives;
- supply and quality control issues with vendors; and
- failure by the Company to maintain appropriate documentation to support its compliance with accounting, tax or legal rules, regulations and policies.

These and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including Section 12, "Enterprise Risks and Risk Management", of this MD&A. These forward-looking statements contained herein and in particular in the Report to Shareholders and MD&A reflect management's current assumptions regarding these risks and uncertainties and their respective impact on the Company.

Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Annual Report. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

2. OVERVIEW

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

3. VISION

The Company vision has been, and continues to be, centred on three main principles: growth, innovation and flexibility. The Company seeks long term, stable growth in its operating segments, while accepting prudent operating risks through continuous capital investment supported by a strong balance sheet with the goal of providing sustainable returns to its shareholders over the long term through a combination of common share price appreciation and dividends.

The Company believes that to be successful over the long term, it must deliver on what its customers and consumers want today and in the future. The Company encourages innovation in order to provide consumers with new products and convenient services at competitive prices that meet consumers' everyday household needs.

Looking ahead, the Company plans to achieve these goals by focusing on its long term operating and financial strategies as discussed below.

4. OPERATING AND FINANCIAL STRATEGIES

To be successful in achieving its vision, the Company employs various operating and financial strategies. The Company engages in strategic acquisitions and dispositions when it is in the best long term interests of its shareholders to do so.

Each of the Company's two reportable operating segments has its own risk profile and operating risk management strategies.

Weston Foods' mission is to be recognized by its customers as providing the best bakery solutions in North America.

This will be achieved by focusing on innovation, cost management and continuous process improvement while exceeding customer and consumer expectations through superior service and product quality.

Weston Foods' long term operating strategies include:

- maintaining customer alignment;
- focusing on brand development including introducing innovative new products to meet the nutritional and dietary concerns of consumers;
- optimizing plant and distribution networks including capital investment to strategically position facilities to support growth and enhance quality, productivity and efficiencies;
- realizing ongoing cost reduction initiatives with the objective of ensuring a low cost operating structure and economies of scale;
- completing strategic acquisitions and developing relationships to broaden market penetration and expand geographic presence; and
- building leadership capability.

Loblaw's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices. Loblaw initiated renewal plans four years ago to achieve its mission by transforming into a centralized, marketing-led organization focused on customers, value, innovative and fresh products and stores, while leveraging its scale and asset base to drive profitable growth.

Loblaw is committed to providing Canadians with a wide range of products and services to meet the everyday household demands of Canadian consumers. Loblaw is known for the quality, innovation and value of its food offering. It offers Canada's strongest control (private) label program, including the unique *President's Choice*, *no name* and *Joe Fresh* brands. In addition, Loblaw makes available to consumers *President's Choice Financial* services and offers the *PC* points loyalty program.

While Loblaw achieved many of its goals in 2010, Loblaw expects to continue the pace and focus on execution of its renewal plan in a market environment that remains unpredictable and competitively intense. In 2011, Loblaw intends to continue to drive initiatives that strengthen its base business including investments in infrastructure, and keeping a vigilant watch on cost control and cash management as it turns its sights on new opportunities by:

- building out from its core food business to capitalize on opportunities in apparel, financial services, health and wellness and Canada's multicultural population;
- continuing to invest in and execute its information technology strategy through the rollout of subsequent supply chain and Enterprise Resource Planning ("ERP") functionality releases with a focus on rolling-out to its merchandising organization and ensuring converted data has integrity for its ERP implementation;

- improving in-store, distribution centre, and store support centre processes in an effort to make the business simpler and more efficient;
- continuing its store upgrade program that will roll out the food renewal and customer service enhancement programs;
- continuing to innovate its control label offering while enhancing profitability;
- continuing to improve its general merchandise range, assortment and profitability;
- focusing on in-store customer service and providing unmatched value; and
- optimizing its customer offering and shopping experience by re-aligning around a new organizational structure.

The Company's financial strategies include:

- maintaining a strong balance sheet;
- minimizing the risks and costs of operating and financing activities; and
- maintaining liquidity and access to capital markets.

The success of these and other plans and strategies discussed in this MD&A may be affected by risks and uncertainties, including those described in Section 12, "Enterprise Risks and Risk Management", of this MD&A.

GWL's Board of Directors ("Board") and senior management meet at least annually to review the Company's business strategy. The business strategy, which generally addresses a three to five year timeframe, targets specific issues in response to the Company's performance and changes in consumer needs and the competitive landscape.

The Company believes that if it successfully implements and executes the business strategy in support of its long term operating and financial strategies, it will be well positioned to fulfill its vision of providing sustainable value to its shareholders over the long term.

5. KEY PERFORMANCE INDICATORS

The Company continuously reviews and monitors its activities and key performance indicators, which it believes are important to measuring the success of the implementation of its operating and financial strategies. Some of the Company's key financial performance indicators are set out below:

Key Financial Performance Indicators	**2010**	2009
Sales growth (decline)	**0.6%**	(0.8)%[2]
EBITDA[1] ($ millions)	**$ 2,192**	$ 1,654
EBITDA margin[1]	**6.8%**	5.2%
Net earnings from continuing operations ($ millions)	**$ 452**	$ 127
Basic net earnings per common share from continuing operations ($)	**$ 3.16**	$ 0.64
Net debt[1] ($ millions)	**$ 501**	$ 299
Net debt[1] to EBITDA[1]	**0.23x**	0.18x
Net debt[1] to equity	**0.08**	0.04
Interest coverage	**3.6x**	2.6x
Return on average net assets[1]	**13.3%**	9.3%
Return on average common shareholders' equity	**7.1%**	1.5%

(1) See non-GAAP financial measures beginning on page 61.
(2) Compared to a 53-week year in 2008.

In addition, other operating performance indicators include but are not limited to: same-store sales growth; operating and administrative cost management; new product development; customer service ratings; production waste; production efficiencies; and market share.

6. OVERALL FINANCIAL PERFORMANCE

6.1 BUSINESS DEVELOPMENTS

Significant business developments occurred in the Weston Foods operating segment during 2010 and 2009: the acquisition of ACE Bakery Ltd. ("ACE") and Keystone Bakery Holdings, LLC ("Keystone"), both in the second half of 2010, and the sale of the U.S. fresh bakery business on January 21, 2009.

Acquisition of ACE Bakery Ltd.

During the fourth quarter of 2010, the Company purchased ACE, a Canadian manufacturer and supplier of artisan and European-style rustic bread varieties, for $110 million. The results of ACE operations from the date of acquisition were included in the Company's operating results and are discussed in Section 7.1, "Weston Foods Operating Results from Continuing Operations" and Section 9.1, "Quarterly Financial Information", of this MD&A. The results of ACE were not significant to consolidated net earnings from continuing operations.

Acquisition of Keystone Bakery Holdings, LLC

During the third quarter of 2010, the Company purchased Keystone, a U.S. manufacturer and supplier of frozen cupcakes, doughnuts and cookies for approximately $188 million (U.S. $186 million). The results of Keystone operations from the date of acquisition were included in the Company's operating results and are discussed in Section 7.1, "Weston Foods Operating Results from Continuing Operations" and Section 9.1, "Quarterly Financial Information", of this MD&A. The results of Keystone were not significant to consolidated net earnings from continuing operations.

Sale of U.S. Fresh Bakery Business

On January 21, 2009, Dunedin Holdings S.à r.l. ("Dunedin"), a subsidiary of GWL, sold its U.S. fresh bakery business to Grupo Bimbo, S.A.B. de C.V. for gross and net proceeds of approximately U.S. $2.5 billion, including approximately U.S. $125 million for interest bearing assets. The sale resulted in a gain of $939 million ($901 million, net of tax). The results and the gain on the sale of the U.S. fresh bakery business have been reflected separately as discontinued operations in the comparative results.

6.2 CONSOLIDATED RESULTS OF OPERATIONS

($ millions except where otherwise indicated)	**2010**	2009	2008[4]
Sales	**$ 32,008**	$ 31,820	$ 32,088
Operating income	**$ 1,483**	$ 1,009	$ 1,198
Gain on disposal of business[1]			$ 335
Interest expense and other financing charges	**$ 388**	$ 363	$ 360
Net earnings from continuing operations	**$ 452**	$ 127	$ 647
Net earnings[2]	**$ 452**	$ 1,035	$ 834
Basic net earnings per common share from continuing operations ($)	**$ 3.16**	$ 0.64	$ 4.65
Diluted net earnings per common share from continuing operations ($)	**$ 3.14**	$ 0.63	$ 4.65
Basic net earnings per common share ($)	**$ 3.16**	$ 7.68	$ 6.10
Diluted net earnings per common share ($)	**$ 3.14**	$ 7.67	$ 6.10
EBITDA[3]	**$ 2,192**	$ 1,654	$ 1,808
EBITDA margin[3]	**6.8%**	5.2%	5.6%

(1) Gain on disposal of business relates to the disposal of Weston Foods' dairy and bottling operations in 2008.
(2) 2009 net earnings include a gain on disposal of $939 million ($901 million, net of tax) recorded in discontinued operations.
(3) See non-GAAP financial measures beginning on page 61.
(4) 2008 was a 53-week year.

Management's Discussion and Analysis

The Company's 2010 basic net earnings per common share from continuing operations were $3.16 compared to $0.64 in 2009, an increase of $2.52. Of this increase, $0.53 was attributable to improvements in the operating performance of the Company's two operating segments, Weston Foods and Loblaw. The balance of the improvement of $1.99 was primarily attributable to the following:

- the positive impact of $1.79 per common share related to the year-over-year reduction in foreign currency translation losses;
- the positive impact of $0.38 per common share related to the non-cash goodwill impairment recorded by Weston Foods in 2009; and
- the positive impact of $0.29 per common share related to the redemption of the GWL 12.7% Promissory Notes in 2009; partially offset by
- the negative impact of $0.44 per common share related to the accounting for Weston Holdings Limited's ("WHL"), a subsidiary of GWL, forward sale agreement for 9.6 million Loblaw common shares.

The Company's 2010 basic net earnings per common share were $3.16 compared to $7.68 in 2009. Included in 2009 net earnings per common share were net earnings per common share from discontinued operations of $7.04.

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 ("U.S. net investment"), and its net investment in integrated foreign subsidiaries held by 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 foreign currency translation gains and losses. Prior to the sale of the U.S. fresh bakery business on January 21, 2009, all of the Company's (excluding Loblaw's) U.S. dollar denominated net assets were held in self-sustaining foreign operations and although changes in the value of the U.S. dollar impacted reported sales, operating income and net earnings related to these operations, foreign currency translation gains and losses due to the translation of their net assets were recorded in accumulated other comprehensive loss. After the sale of the U.S. fresh bakery business, Dunedin and certain of its affiliates became integrated foreign subsidiaries for accounting purposes. As a result, gains and losses arising from the translation of the U.S. dollar denominated net assets of these integrated foreign subsidiaries are included in operating income.

The Weston Foods operating segment achieved strong financial results despite soft sales in 2010. Weston Foods sales were negatively impacted by foreign currency translation and lower pricing in certain product categories, partially offset by the positive impact of the Keystone and ACE acquisitions. After excluding the impact of the commodity derivatives fair value adjustment, the impact of stock-based compensation net of equity derivatives, the non-cash goodwill impairment charge in Weston Foods' biscuits, cookies, cones and wafers business recorded in 2009 and also foreign currency translation, operating income in 2010 remained strong. Operating income was positively impacted by the benefits realized from productivity improvements and other cost reduction initiatives, lower input costs, lower legal and restructuring charges and the results of the bakery acquisitions, which were partially offset by the impact of lower pricing in certain product categories, continued escalation in labour and related benefit costs and promotional spending.

Over the past two years, the Weston Foods operating segment was impacted by the following key trends:

- a continuing consumer focus on healthier, more nutritious and value-added products as well as more portion controlled items that do not sacrifice great taste. This impacted Weston Foods sales mix and product innovation focus resulting in sales growth in whole grain products, nutritionally enhanced white breads, premium products such as artisan bakery offerings, reduced sodium, fat and no trans fat products, alternative and international products, including flatbreads;

- a continuing growth in the alternate format retail food channels. Weston Foods continues to grow with these alternate formats while retaining its strong position in conventional supermarkets;
- a trend toward more consumers eating at home as the North American economic environment deteriorated. For Weston Foods, this had a positive impact on volume growth with retail store customers but a negative impact with food service customers; and
- although cost pressures somewhat eased in 2009 and 2010 for certain key inputs, cost escalation continued in labour and related benefit costs as well as promotional spending.

Over the past two years, Weston Foods increased investment behind its brands, continued to introduce new products in response to changing consumer eating preferences, and invested capital to support growth and enhance quality and productivity. These investments, coupled with a continued focus on cost improvements, customer service and growth in higher margin product offerings, resulted in strong financial performance.

In 2010, Loblaw continued to make steady progress in its renewal program. Progress during the year was achieved despite a difficult economic environment. Deflationary pressures combined with heightened promotional and competitive activity resulted in soft sales throughout 2010. Throughout the year, Loblaw delivered enhanced fresh food offerings, renovated and revitalized stores, and introduced innovative and differentiated control label brands to provide an enhanced customer shopping experience. In addition, Loblaw continued to invest and build its core infrastructure, including both information technology and supply chain.

Some of Loblaw's key accomplishments in 2010 included:

- improved fresh food quality and assortment;
- touched over 200 stores as part of the store revitalization program of which 160 were considered renovations;
- continued *nofrills* expansion program with an additional nine *nofrills* stores in Western Canada and six more *nofrills* stores in Atlantic Canada;
- improved overall control brand profitability;
- completed the roll-out of a new transportation management system and continued to implement a new warehouse management system;
- enhanced supply chain efficiency that resulted in improved product availability;
- moved forward in implementing the ERP system by integrating the real estate and financial services divisions and the general ledger and related financial reporting across the business onto the new system with nearly 1,000 colleagues now using the system;
- initiated the next wave of ERP implementation with two successful pilots in merchandising involving approximately 20 categories;
- strengthened the balance sheet providing enhanced financial flexibility;
- successfully completed labour negotiations in Ontario and British Columbia providing new and critical scheduling flexibility; and
- recognized as one of Canada's Top 100 employers.

Sales

The Company's 2010 consolidated sales increased 0.6% to $32.0 billion from $31.8 billion in 2009.

Consolidated sales growth for 2010 was impacted by each reportable operating segment as follows:

- Negatively by 0.2% due to the sales decrease of 3.7% at Weston Foods. Foreign currency translation negatively impacted Weston Foods sales by approximately 4.4%, while the acquisition of ACE and Keystone positively impacted sales by 2.8%. Of the remaining decline of 2.1%, approximately 2.0% was attributable to lower pricing across key product categories. Volume increased 2.3% in 2010 compared to 2009, of which 2.4% was attributable to the acquisitions.

- Positively by 0.8% due to the sales increase of 0.9% at Loblaw. Same-store sales declined 0.6%. T&T Supermarket Inc. ("T&T") sales positively impacted sales by 1.4%. Loblaw's average annual internal retail food price index was deflated. This compared to average annual internal retail food price inflation in 2009. Net retail square footage increased 0.1 million square feet or 0.2% in 2010 to 50.7 million square feet. Corporate store sales per average square foot increased to $601 from $597 in 2009.

The Company's 2009 consolidated sales (52 weeks) decreased 0.8% to $31.8 billion from $32.1 billion in 2008 (53 weeks).

Consolidated sales growth for 2009 was impacted by each reportable operating segment as follows:

- Negatively by 1.6% due to the sales decrease of 23.3% at Weston Foods. The sale of the dairy and bottling operations and the additional week of operating results in 2008 negatively impacted reported sales growth by approximately 24.8% and 1.3%, respectively, while foreign currency translation positively impacted sales by approximately 2.4%. The combined effect of price increases implemented in 2008 across key product categories and changes in sales mix was a positive impact of 1.3% for 2009. Volume declined 41.8% for the year, of which 39.5% was due to the sale of the dairy and bottling operations and approximately 1.4% was due to the additional week of operating results in 2008.
- Negatively by 0.2% due to the sales decrease of 0.2% at Loblaw. Same-store sales declined 1.1%, including a decline in sales and same-store sales of approximately 1.8% due to the extra selling week in 2008. Net retail square footage increased 0.8 million square feet or 1.6% in 2009 to 50.6 million square feet. Corporate store sales per average square foot decreased to $597 in 2009 from $624 in 2008.

Operating Income

The Company's 2010 consolidated operating income was $1,483 million compared to $1,009 million in 2009, an increase of 47.0%. The consolidated operating margin in 2010 was 4.6% compared to 3.2% in 2009. The Company's 2010 consolidated operating income growth was impacted positively by 15.4% due to an increase of 126.0% in operating income at Weston Foods, and positively by 6.3% due to an increase of 5.3% in operating income at Loblaw. In addition, the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates positively impacted operating income growth by 25.3%.

The year-over-year change in the following items influenced the Company's operating income in 2010 compared to 2009:

- a charge of $56 million (2009 – $311 million), of which $56 million (2009 – $225 million) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates and nil (2009 – $86 million) related to the reversal of cumulative foreign currency translation losses;
- nil (2009 – a charge of $73 million) related to the non-cash goodwill impairment in Weston Foods' biscuits, cookies, cones and wafers business;
- a charge of $26 million (2009 – nil) related to an asset impairment due to the closure of a Loblaw distribution centre in Quebec;
- income of $39 million (2009 – $24 million) related to the commodity derivatives fair value adjustment at Weston Foods; and
- a charge of $20 million (2009 – $12 million) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw.

Included in the effect of foreign currency translation of $225 million reported in 2009 was a $48 million charge related to the conversion of U.S. $2.4 billion of cash and short term investments to approximately $3.0 billion Canadian dollars following the sale of the U.S. fresh bakery business. This loss was a result of the appreciation of the Canadian dollar relative to the U.S. dollar between the closing date of the sale and the dates on which the proceeds were converted to Canadian dollars.

Excluding the impact of the specific items noted above, operating income for 2010 remained strong compared to 2009.

The Company's 2010 consolidated EBITDA margin[1] increased to 6.8% from 5.2% in 2009.

The Company's 2009 consolidated operating income was $1,009 million compared to $1,198 million in 2008, a decrease of 15.8%. The consolidated operating margin in 2009 was 3.2% compared to 3.7% in 2008. The Company's 2009 consolidated operating income was impacted negatively by 2.6% due to a decrease of 20.1% in operating income at Weston Foods, and positively by 12.8% due to an increase of 14.7% in operating income at Loblaw. In addition, the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates negatively impacted operating income by 26.0%.

The year-over-year change in the following items influenced the Company's operating income in 2009 compared to 2008:

- a charge of $311 million (2008 – nil), of which $225 million (2008 – nil) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates and $86 million (2008 – nil) related to the reversal of cumulative foreign currency translation losses;
- a charge of $73 million (2008 – nil) related to the non-cash goodwill impairment in Weston Foods' biscuits, cookies, cones and wafers business;
- income of $24 million (2008 – a charge of $46 million) related to the commodity derivatives fair value adjustment at Weston Foods;
- a charge of $12 million (2008 – income of $2 million) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- nil (2008 – income of $47 million) related to the income of Weston Foods' dairy and bottling operations;
- nil (2008 – income of $22 million) related to the gain on the sale of Loblaw's food service business; and
- nil (2008 – income of $7 million) related to the redemption of the remaining outstanding GWL 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares.

Excluding the impact of the specific items noted above, operating income for 2009 was strong compared to 2008.

The Company's 2009 consolidated EBITDA margin[1] decreased to 5.2% from 5.6% in 2008.

Gain on Disposal of Business

In 2008, the Company recorded a pre-tax gain of $335 million ($281 million, net of tax) on the disposal of Weston Foods' dairy and bottling operations. The effect on basic net earnings per common share for 2008 was income of $2.18.

Interest Expense and Other Financing Charges

Interest expense and other financing charges consist primarily of interest on short and long term debt, interest and other financing charges on financial derivative instruments and dividends on capital securities, net of interest earned on short term investments and security deposits, and interest capitalized to fixed assets. In 2009, interest expense and other financing charges also included a loss on the redemption of debt.

In 2010, interest expense and other financing charges increased $25 million to $388 million from $363 million in 2009.

(1) See non-GAAP financial measures beginning on page 61.

The increase was mainly due to:

- an increase in the non-cash charge related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares of $75 million, when compared to 2009 (see notes 6 and 26 to the consolidated financial statements for additional information); partially offset by
- a loss of $49 million recorded in 2009 related to the redemption of the GWL 12.7% Promissory Notes.

Excluding the impact of the specific items noted above, interest expense and other financing charges in 2010 decreased $1 million when compared to 2009.

The 2010 weighted average fixed interest rate on long term debt (excluding capital lease obligations) was 6.3% (2009 – 6.5%) and the weighted average term to maturity was 14 years (2009 – 14 years).

In 2009, interest expense and other financing charges increased by $3 million to $363 million from $360 million in 2008.

The increase was mainly due to:

- a loss of $49 million recorded in 2009 related to the redemption of the GWL 12.7% Promissory Notes; offset by
- a $25 million decrease in interest on long term debt to $371 million compared to $396 million in 2008; and
- a decrease in the non-cash charge related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares of $24 million, when compared to 2008.

The 2009 weighted average fixed interest rate on long term debt (excluding capital lease obligations) was 6.5% (2008 – 6.6%) and the weighted average term to maturity was 14 years (2008 – 15 years).

Income Taxes

The Company's 2010 effective income tax rate decreased to 33.8% from 40.1% in 2009. The decrease in the effective income tax rate when compared to 2009 was mainly due to a decrease in non-deductible foreign currency translation losses, partially offset by an increase in income tax expense relating to certain prior year income tax matters and a charge of $15 million related to changes in the federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options.

During 2010, GWL received a reassessment from the Canada Revenue Agency ("CRA") challenging GWL's characterization of a gain reported in a previous tax return filing. Should the CRA be successful in its assertion, the maximum exposure to the Company's net earnings would be approximately $62 million. GWL intends to vigorously defend its filing position. No amount has been recorded in the Company's financial statements.

The Company's effective income tax rate increased in 2009 to 40.1% from 25.9% in 2008. The increase in the effective income tax rate when compared to 2008 was mainly the result of non-deductible foreign currency translation losses recorded in 2009. The increase was partially offset by the cumulative reduction in income tax expense as a result of a reduction in Ontario statutory income tax rates enacted in the fourth quarter of 2009 and a decrease in income tax accruals relating to certain prior year income tax matters.

Net Earnings from Continuing Operations

Net earnings from continuing operations for 2010 were $452 million compared to $127 million in 2009. Basic net earnings per common share from continuing operations for 2010 were $3.16 compared to $0.64 in 2009.

Basic net earnings per common share from continuing operations were affected for 2010 compared to 2009 by the following factors:

- a $0.43 per common share charge (2009 – $2.22), of which $0.43 (2009 – $1.56) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates and nil (2009 – a $0.66 per common share charge) related to the reversal of cumulative foreign currency translation losses;

- a $0.36 per common share non-cash charge (2009 – $0.08 per common share non-cash income) related to the accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares;
- nil (2009 – a $0.38 per common share charge) related to the non-cash goodwill impairment in Weston Foods' biscuits, cookies, cones and wafers business;
- nil (2009 – a $0.29 per common share charge) related to the redemption of the GWL 12.7% Promissory Notes;
- a $0.09 per common share charge (2009 – nil) related to an asset impairment due to the closure of a Loblaw distribution centre in Quebec;
- $0.21 per common share income (2009 – $0.12) related to the commodity derivatives fair value adjustment at Weston Foods;
- a $0.08 per common share charge (2009 – nil) related to changes in the federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options; and
- a $0.04 per common share charge (2009 – $0.09) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw.

Net earnings from continuing operations for 2009 were $127 million compared to $647 million in 2008. Basic net earnings per common share from continuing operations for 2009 were $0.64 compared to $4.65 in 2008.

Basic net earnings per common share from continuing operations were affected for 2009 compared to 2008 by the following factors:

- a $2.22 per common share charge (2008 – nil), of which $1.56 (2008 – nil) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates and $0.66 (2008 – nil) related to the reversal of cumulative foreign currency translation losses;
- a $0.38 per common share charge (2008 – nil) related to the non-cash goodwill impairment in Weston Foods' biscuits, cookies, cones and wafers business;
- $0.12 per common share income (2008 – a $0.24 per common share charge) related to the commodity derivatives fair value adjustment at Weston Foods;
- a $0.29 per common share charge (2008 – nil) related to the redemption of the GWL 12.7% Promissory Notes;
- $0.08 per common share non-cash income (2008 – a $0.06 per common share non-cash charge) related to the accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares;
- a $0.09 per common share charge (2008 – $0.06) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- nil (2008 – a $0.03 per common share charge) related to the income tax effect of the fair value adjustment of the Domtar (Canada) Paper Inc. shares, net of the remeasurement of the GWL 3% Exchangeable Debentures;
- nil (2008 – $0.04 per common share income) related to the redemption of the remaining outstanding GWL 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares;
- nil (2008 – $0.07 per common share income) related to the gain on the sale of Loblaw's food service business;
- nil (2008 – $0.25 per common share income) related to the income of Weston Foods' dairy and bottling operations; and
- nil (2008 – $2.18 per common share income) related to the gain on disposal of Weston Foods' dairy and bottling operations.

Discontinued Operations
Net earnings from discontinued operations were nil in 2010 compared to $908 million in 2009 and $187 million in 2008. Included in 2009 net earnings from discontinued operations was a gain on disposal of $939 million ($901 million, net of tax) related to the sale of the U.S. fresh bakery business. For additional information, see note 4 to the consolidated financial statements.

Net Earnings
Net earnings for 2010 were $452 million compared to $1,035 million in 2009. Basic net earnings per common share for 2010 decreased to $3.16 compared to $7.68 in 2009, including basic net earnings per common share from discontinued operations of nil compared to $7.04 in 2009.

Net earnings for 2009 increased $201 million to $1,035 million compared to $834 million in 2008. Basic net earnings per common share for 2009 increased $1.58 to $7.68 compared to $6.10 in 2008, including basic net earnings per common share from discontinued operations of $7.04 compared to $1.45 in 2008.

There were no new accounting standards implemented in 2010. Accounting standards implemented in 2009 are discussed in Section 15, "Accounting Standards Implemented in 2009", of this MD&A and in note 2 to the consolidated financial statements.

Changes in minority interest did not have a significant impact on the growth of the Company's net earnings over the past two years. GWL's ownership of Loblaw was 62.9% as at the end of 2010, 62.5% as at the end of 2009 and 61.9% as at the end of 2008. The increase in GWL's ownership was primarily due to the Company's participation in the Loblaw Dividend Reinvestment Plan ("DRIP"). The increase in 2009 was also due to Loblaw's repurchase of 1.7 million of its common shares during the fourth quarter of 2009.

Subsequent to the end of 2010, the Loblaw Board of Directors approved that the DRIP be discontinued following the dividend payment on April 1, 2011 when approximately $300 million in Loblaw common share equity will have been raised through the program as planned.

6.3 CONSOLIDATED FINANCIAL CONDITION

($ millions except where otherwise indicated)	**2010**	2009	2008
Total assets	**$ 20,854**	$ 20,143	$ 19,563
Total long term debt (excluding amount due within one year)	**$ 5,129**	$ 5,377	$ 5,308
Dividends declared per share ($) – Common share(1)	**$ 9.19**	$ 1.44	$ 1.44
– Preferred share:			
Series I	**$ 1.45**	$ 1.45	$ 1.45
Series II		$ 0.32	$ 1.29
Series III	**$ 1.30**	$ 1.30	$ 1.30
Series IV	**$ 1.30**	$ 1.30	$ 1.30
Series V	**$ 1.19**	$ 1.19	$ 1.19

(1) 2010 includes the special one-time common share dividend of $7.75 per common share which was declared in the fourth quarter of 2010 and subsequently paid on January 25, 2011.

The Company's total assets in 2010 were greater than in 2009 and 2008. The 2010 increase was primarily due to the acquisition of Keystone and ACE by Weston Foods and an increase in fixed assets primarily as a result of Loblaw's capital investment program, including the incremental investment in information technology and supply chain. This increase was partially offset by the appreciation of the Canadian dollar relative to the U.S. dollar, which caused a decrease in the translated amounts of U.S. dollar denominated net assets. The increase in 2009 was primarily due to an increase in cash and short term investment balances net of the decrease in current assets of operations held for sale which were sold in 2009, an increase in goodwill and intangible assets as a result of the acquisition of T&T by Loblaw and an increase in fixed assets primarily as a result of Loblaw's capital investment program, including the incremental investment in information technology and supply chain and the acquisition of a distribution centre in 2009. This increase was partially offset by the appreciation of the Canadian dollar relative to the U.S. dollar, which caused a decrease in the translated amounts of U.S. dollar denominated net assets.

The Company holds significant cash and short term investments denominated in Canadian and United States dollars. Cash flows from operating activities, proceeds from the sale of the U.S. fresh bakery business in 2009 and the proceeds from the sale of the dairy and bottling operations in the fourth quarter of 2008 have covered a large portion of the funding requirements for the Company over the past two years.

Over the past two years, the Company's funding requirements resulted primarily from:

- capital investment programs;
- repayment of long term debt;
- acquisition of Keystone by Weston Foods;
- acquisition of ACE by Weston Foods;
- acquisition of T&T by Loblaw;
- dividends paid on common and preferred shares;
- redemption of the GWL preferred shares, Series II;
- redemption of the GWL 12.7% Promissory Notes; and
- settlement of Loblaw equity forward contracts.

During the fourth quarter of 2010, the Company declared a special one-time common share dividend of $7.75 per common share which was subsequently paid on January 25, 2011.

Financial Ratios

The Company's 2010 return on average net assets(1) of 13.3% was higher than the 2009 return of 9.3%. The 2010 return on average common shareholders' equity of 7.1% was higher than the 2009 return of 1.5%. The increase in both measures in 2010 was largely the result of higher reported operating income, while the increase in the return on average common shareholders' equity was also impacted by the accrual of the $1.0 billion special one-time common share dividend declared in the fourth quarter of 2010 and subsequently paid on January 25, 2011.

The Company's 2009 return on average net assets(1) of 9.3% was lower than the 2008 return of 11.2%, and the Company's 2009 return on average common shareholders' equity of 1.5% was lower than the 2008 return of 13.4%. The decrease in both measures in 2009 was largely the result of lower reported operating income, while the decrease in the return on average common shareholders' equity in 2009 was also impacted by the gain on sale of Weston Foods' dairy and bottling operations in 2008.

The Company's net debt(1) to EBITDA(1) ratio was 0.23 times at the end of 2010 compared to 0.18 times at the end of 2009. The increase in this ratio was driven primarily by an increase in net debt(1) as described below, which was partially offset by an increase in EBITDA(1). The increase in EBITDA(1) was primarily due to the reduction in foreign currency translation losses on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates and increases in operating income at both Weston Foods and Loblaw. The Company's 2010 net debt(1) to equity(1) ratio was 0.08:1 compared to 0.04:1 in 2009. The increase in this ratio was also due primarily to the increase in net debt(1), as well as a decrease in shareholders' equity from 2009 to 2010. The decrease in shareholders' equity resulted from the accrual of the $1.0 billion special one-time common share dividend declared in the fourth quarter of 2010 and subsequently paid on January 25, 2011.

The Company's net debt(1) to EBITDA(1) ratio was 0.18 times at the end of 2009 compared to 1.8 times at the end of 2008. The decrease in this ratio was driven primarily by a reduction in net debt(1), which was partially offset by a decrease in EBITDA(1). The reduction in net debt(1) was primarily due to the proceeds from the sale of the U.S.

(1) See non-GAAP financial measures beginning on page 61.

fresh bakery business of $3,107 million and improvements in non-cash working capital at Loblaw, partially offset by the redemption of GWL preferred shares, Series II, for $265 million and the acquisition of T&T by Loblaw. The decrease in EBITDA[1] was primarily due to lower operating income. The Company's 2009 net debt[1] to equity[1] ratio was 0.04:1 compared to 0.53:1 in 2008. The decrease in this ratio was also due primarily to the decrease in net debt[1], as described above, as well as an increase in shareholders' equity from 2008 to 2009. The increase in shareholders' equity resulted primarily from the gain on disposal of the U.S. fresh bakery business.

The 2010 interest coverage ratio increased to 3.6 times compared to 2.6 times in 2009 primarily due to the increase in operating income. Interest expense and other financing charges included a non-cash charge of $62 million (2009 – non-cash income of $13 million) recorded in 2010 related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares, which negatively impacted the change in the interest coverage ratio by approximately 0.8 times.

The 2009 interest coverage ratio decreased to 2.6 times compared to 3.2 times in 2008 primarily due to the decrease in operating income. Interest expense and other financing charges included non-cash income of $13 million (2008 – a non-cash charge of $11 million) recorded in 2009 related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares, which positively impacted the change in the interest coverage ratio by approximately 0.2 times.

Net Debt[1]

Net debt[1] was $501 million as at December 31, 2010 compared to $299 million as at December 31, 2009. The increase was primarily due to fixed asset purchases at Loblaw, dividend payments and the acquisition of Keystone and ACE by Weston Foods, partially offset by positive cash flows from operating activities.

The Company's net debt[1] was $299 million as at December 31, 2009 compared to $3,251 million as at December 31, 2008. Of the $2,952 million reduction in net debt[1], the proceeds from the sale of the U.S. fresh bakery business accounted for $3,107 million. The reduction was also largely attributable to improvements in non-cash working capital at Loblaw, partially offset by the redemption of the GWL preferred shares, Series II, for $265 million and the acquisition of T&T by Loblaw.

Outstanding Share Capital and Capital Securities

GWL's outstanding share capital is comprised of common shares and preferred shares. The following table details the authorized and outstanding common shares and preferred shares:

		Authorized	Outstanding
Common shares		Unlimited	129,073,662
Preferred shares	– Series I	10,000,000	9,400,000
	– Series II	10,600,000	
	– Series III	10,000,000	8,000,000
	– Series IV	8,000,000	8,000,000
	– Series V	8,000,000	8,000,000

GWL may, at its option, redeem for cash, in whole or in part, the preferred shares Series I, Series III, Series IV and Series V outstanding on or after the redemption dates specified by the terms of each series of preferred shares. GWL may at any time after issuance give the holders of these preferred shares the right, at the option of the holder, to convert the holder's preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

Further information on GWL's outstanding share capital is provided in note 22 to the consolidated financial statements.

On April 1, 2009, the Company redeemed for cash the 10.6 million outstanding Series II preferred shares for $25.00 per share, or $265 million in aggregate, plus accrued and unpaid dividends to but excluding April 1, 2009

(1) See non-GAAP financial measures beginning on page 61.

in accordance with the terms of the shares. At year end 2008, these preferred shares were presented as capital securities and were included in current liabilities.

Twelve million non-voting Loblaw second preferred shares, Series A, are authorized and 9.0 million were outstanding at year end 2010. These preferred shares are presented as capital securities and are included in long term liabilities on the consolidated balance sheet. Dividends on capital securities are presented in interest expense and other financing charges on the consolidated statements of earnings.

Further information on the Company's capital securities is provided in note 21 to the consolidated financial statements.

At year end, a total of 1,533,443 GWL stock options were outstanding, representing 1.2% of GWL's issued and outstanding common shares. At year end, a total of 9,320,865 Loblaw stock options were outstanding, representing 3.3% of Loblaw's issued and outstanding common shares. The number of stock options outstanding was within the Companies' guidelines of 5% of the total number of outstanding shares. Each stock option is exercisable into one common share of GWL or Loblaw 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. Subsequent to the end of 2010, the right to receive a cash payment in lieu of exercising an option for shares was removed.

Further information on GWL's and Loblaw's stock-based compensation is provided in note 24 to the consolidated financial statements.

Dividends

The declaration and payment of dividends and the amounts thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time. Over the long term, 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. Currently, there is no restriction that would prevent GWL from paying common dividends at historical levels. Dividends on the preferred shares rank in priority ahead of the common shares.

During the fourth quarter of 2010, as a result of the Company's solid operating performance, significant cash balances and ample liquidity to grow the business, GWL declared a special one-time common share dividend of $7.75 per common share in excess of its normal dividends.

Subsequent to the end of 2010, common share dividends of $0.36 per share and preferred share dividends of $0.32 per share for the Series III and Series IV preferred shares and dividends of $0.30 per share for the Series V preferred shares, payable on April 1, 2011, were declared by the Board. In addition, dividends of $0.36 per share for the Series I preferred shares, payable on March 15, 2011 were also declared.

At the time such dividends are declared, GWL identifies on its website (www.weston.ca) the designation of eligible and ineligible dividends in accordance with the administrative position of the CRA.

Equity Derivative Contracts

As at year end 2010, Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw, had cumulative equity forwards to buy 1.5 million (2009 – 1.5 million) Loblaw common shares at an average forward contract price of $56.26 (2009 – $66.25), including $0.04 (2009 – $10.03) per common share of interest expense. As at year end 2010, the cumulative interest and unrealized market loss of $24 million (2009 – $48 million) was included in accounts payable and accrued liabilities relating to these equity forwards. As at year end 2010, GWL had equity swaps to buy 1.7 million (2009 – 1.7 million) GWL common shares at an average forward price of $103.17 (2009 – $103.17). As at year end 2010, the unrealized market loss of $32 million (2009 – $61 million) was recorded in accounts payable and accrued liabilities relating to these equity swaps. Subsequent to the end of 2010, GWL elected to adjust the forward price of these equity swaps by $7.75 to an average forward price of $95.42 as a result of the special one-time common share dividend of $7.75 per common share declared in the fourth quarter of 2010.

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.

7. RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion provides details of the 2010 results of operations of each of the Company's reportable operating segments.

7.1 WESTON FOODS OPERATING RESULTS FROM CONTINUING OPERATIONS

($ millions except where otherwise indicated)	**2010**	2009	Change
Sales	**$ 1,624**	$ 1,686	(3.7)%
Operating income	**$ 278**	$ 123	126.0%
Operating margin	**17.1%**	7.3%	
EBITDA[1]	**$ 332**	$ 179	85.5%
EBITDA margin[1]	**20.4%**	10.6%	
Return on average net assets[1]	**38.1%**	19.2%	

(1) See non-GAAP financial measures beginning on page 61.

As previously discussed, the Company purchased Keystone, a U.S. manufacturer and supplier of frozen cupcakes, doughnuts and cookies during the third quarter of 2010 and ACE, a Canadian manufacturer and supplier of artisan and European-style rustic bread varieties during the fourth quarter of 2010. The results of Keystone and ACE from their respective dates of acquisition were included in Weston Foods 2010 results.

Sales and operating income in 2010 were impacted by the following trends:

- changing consumer eating preferences toward healthier, more nutritious and value-added offerings continued in 2010. Weston Foods responded to these trends with innovative and expanded products across its product portfolio resulting in new sales growth. These trends are expected to continue into 2011 and Weston Foods is well positioned to participate in this growth with its strong portfolio of on-trend offerings under its *Wonder*, *D'Italiano*, *Country Harvest* and *Gadoua* brands;
- the continuing shift in consumer food shopping patterns toward alternate format retail channels rather than traditional, conventional supermarket formats resulted in sales growth with these alternate format retailers. Weston Foods continues to focus on ensuring its products are well aligned to serve all its customers' needs;
- the continued focus on productivity and cost reduction contributed to the growth in operating income;
- lower pricing in 2010 mainly due to a new go-to-market strategy for wafers and cones;
- lower input costs were realized in 2010 compared to 2009, partially offset by continued cost escalation in labour and related benefit costs as well as increased promotional support; and
- the acquisition of Keystone and ACE which contributed positively to overall frozen bakery sales growth.

A detailed discussion on how these trends and other factors impacted sales and operating income in 2010 is set out below.

Sales

Weston Foods sales for 2010 of $1,624 million decreased 3.7% compared to 2009. Foreign currency translation negatively impacted sales by approximately 4.4%, while the acquisitions positively impacted sales by 2.8%. Of the remaining decline of 2.1%, approximately 2.0% was attributable to lower pricing in certain product categories. Volume increased 2.3% in 2010 compared to 2009, of which 2.4% was attributable to the acquisitions.

The following sales analysis excludes the impact of foreign currency translation.

Fresh bakery sales, principally bread, rolls, bagels, tortillas and fresh-baked sweet goods, decreased approximately 1.0% in 2010 compared to 2009 and represented approximately 39% of total Weston Foods sales, up from approximately 38% in 2009. The sales decline was primarily due to lower sales volumes, partially offset by higher pricing including increased promotional spending. Volumes decreased in 2010 due to lower sales of private label products and the continued softness in the food service market, partially offset by growth in the *Gadoua* and *D'Italiano* brands. The introduction of new products, such as *Wonder+ Invisibles, Country Harvest* Ancient Grains*, Country Harvest* Raisin Cinnamon with Whole Wheat*, Jake's Bake House, Wonder+ SimplyFree* and *D'Italiano* Focaccia, contributed positively to branded sales growth in 2010.

Frozen bakery sales, principally bread, rolls and sweet goods, increased approximately 6.8% in 2010 compared to 2009 and represented approximately 42% of total Weston Foods sales, up from approximately 40% in 2009. The sales growth was primarily driven by the acquisitions. Excluding the effect of these acquisitions, frozen bakery sales decreased approximately 0.3% in 2010 compared to 2009 due to lower pricing and lower sales volumes as a result of decreases in certain product categories including the continued softness in the food service market and the loss of certain distributed products.

Biscuit sales, principally wafers, ice-cream cones, cookies and crackers, decreased approximately 7.7% in 2010 compared to 2009 and represented approximately 19% of total Weston Foods sales, down from approximately 22% in 2009. The sales decline in this category was mainly due to lower pricing in certain product categories. Overall volumes increased compared to 2009 mainly due to growth in cookie and wafer sales, partially offset by lower cone and cup sales.

Operating Income

Weston Foods operating income for 2010 increased by $155 million, or 126.0%, to $278 million compared to $123 million in 2009. Operating margin for 2010 was 17.1% compared to 7.3% in 2009.

The year-over-year change in the following items influenced 2010 operating income compared to 2009:

- nil (2009 – a charge of $73 million) related to the non-cash goodwill impairment in Weston Foods' biscuits, cookies, cones and wafers business;
- income of $39 million (2009 – $24 million) related to the commodity derivatives fair value adjustment; and
- income of $17 million (2009 – $10 million) related to the effect of stock-based compensation net of equity derivatives.

In addition, operating income for 2010 was negatively impacted by foreign currency translation due to a stronger Canadian dollar relative to the U.S. dollar.

Weston Foods is exposed to commodity price fluctuations primarily as a result of purchases of certain raw materials, fuels and utilities. In accordance with the Company's risk management strategy, Weston Foods enters into commodity derivatives to reduce the impact of price fluctuations in forecasted raw material purchases over a specified period of time. These commodity derivatives are not acquired for trading or speculative purposes. Certain of these derivatives are not designated for financial reporting purposes as cash flow hedges of anticipated future raw material purchases, and accordingly hedge accounting does not apply. As a result, changes in the fair value of these derivatives, which include realized and unrealized gains and losses related to future purchases of raw materials, are recorded in operating income. Weston Foods recorded income of $39 million (2009 – $24 million) related to the fair value adjustment of exchange traded commodity derivatives that were not designated within a hedging relationship. Despite the impact of accounting for these commodity derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price fluctuations in the underlying commodities during the period that the commodity derivatives are held.

Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. In 2010 a charge of $6 million (2009 – $9 million) was recorded in operating income related to restructuring activities, including accelerated depreciation of nil (2009 – $2 million).

Excluding these specific items described above, operating income in 2010 remained strong compared to 2009. Operating income was positively impacted by the benefits realized from productivity improvements and other cost reduction initiatives, lower input costs, lower legal and restructuring charges and the results of the bakery acquisitions, which were partially offset by the impact of lower pricing in certain product categories, the continued escalation in labour and related benefit costs and promotional spending.

Gross margin, including the impact of the commodity derivatives fair value adjustment, increased in 2010 compared to 2009.

EBITDA(1) increased by $153 million, or 85.5%, to $332 million in 2010 compared to $179 million in 2009. EBITDA margin(1) for 2010 increased to 20.4% from 10.6% in 2009, mainly due to the non-cash goodwill impairment charge recorded in the first quarter of 2009 and the increase in operating income as described above.

Outlook(2)
In 2011, Weston Foods expects continued progress in operating performance driven by sales growth in existing businesses, the full year impact of the 2010 bakery acquisitions and ongoing efforts to reduce costs through improved efficiencies and productivity. This outlook is tempered by the impact of rapidly rising commodity costs and escalating energy costs. While Weston Foods is planning to increase prices to absorb these cost increases, operating margins could be constrained in 2011 as the timing of price increases may lag cost increases.

7.2 LOBLAW OPERATING RESULTS

($ millions except where otherwise indicated)	**2010**	2009	Change
Sales	**$ 30,997**	$ 30,735	0.9%
Operating income	**$ 1,261**	$ 1,197	5.3%
Operating margin	**4.1%**	3.9%	
EBITDA(1)	**$ 1,916**	$ 1,786	7.3%
EBITDA margin(1)	**6.2%**	5.8%	
Return on average net assets(1)	**12.1%**	11.8%	

(1) See non-GAAP financial measures beginning on page 61.

While Loblaw delivered solid earnings growth, deflationary pressures and competitive intensity resulted in declines in sales and same-store sales, particularly in the fourth quarter of 2010.

Sales
Sales for 2010 increased 0.9% to $31.0 billion compared to $30.7 billion in 2009. The following factors explain the major components in the change in sales when compared to 2009:

- same-store sales declined 0.6%;
- T&T sales positively impacted sales by 1.4%;
- sales growth in food and drugstore were flat;
- sales growth in apparel was strong while sales of other general merchandise declined significantly due to lower discretionary consumer spending and reductions in assortment and square footage;
- gas bar sales increased significantly as a result of higher retail gas prices and strong volume growth;

(1) See non-GAAP financial measures beginning on page 61.
(2) This outlook should be read in conjunction with the Forward-Looking Statements section of this MD&A on page 5.

- Loblaw's average annual internal retail food price index was deflated. This compared to average annual internal retail food price inflation in 2009. Average annual national food price inflation was 1.0% (2009 – 5.5%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- 11 (2009 – 41) corporate and franchised stores were opened and 13 (2009 – 33) corporate and franchised stores were closed, resulting in a net increase of 0.1 million square feet, or 0.2%.

In 2010, Loblaw launched over 1,200 new control label products and redesigned the packaging of approximately 300 products. Sales of control label products for 2010 were $8.2 billion compared to $8.3 billion in 2009.

Operating Income

Operating income of $1,261 million for 2010 increased $64 million, or 5.3%, compared to $1,197 million in 2009 resulting in an increase in operating margin to 4.1% in 2010 from 3.9% in 2009.

2010 gross profit increased by $408 million to $7,604 million compared to $7,196 million in 2009. Gross profit as a percentage of sales was 24.5% in 2010 compared to 23.4% in 2009. The increase in gross profit was attributable to improved control label profitability, continued buying synergies and more disciplined vendor management, a stronger Canadian dollar, improved shrink and the shift of pharmaceutical vendor rebates from selling and administrative expenses to gross profit. Increased transportation costs partially offset these improvements.

The increase in operating income was primarily due to the improvement in gross profit, as described above, and the impact of the acquisition of T&T, partially offset by incremental costs of $142 million related to Loblaw's investment in information technology and supply chain, including incremental depreciation and amortization of $59 million, a charge of $37 million (2009 – $22 million) related to the effect of stock-based compensation net of equity forwards, a $26 million asset impairment due to the closure of a distribution centre in Quebec, a charge of $17 million in connection with the ratification of new collective agreements with certain Ontario union locals and a charge of $28 million (2009 – $27 million) for fixed asset impairments related to asset carrying values in excess of fair values for specific store locations. Operating income in 2009 included a gain of $8 million from the sale of financial investments by President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw.

EBITDA[(1)] increased $130 million, or 7.3%, to $1,916 million in 2010 compared to $1,786 million in 2009. EBITDA margin[(1)] increased to 6.2% compared to 5.8% in 2009. The increases in EBITDA[(1)] and EBITDA margin[(1)] were primarily due to the increases in operating income and operating margin as described above.

Outlook[(2)]

Loblaw is entering its fifth and final year of renewal and expects to continue its focus on executing the renewal plan in a market environment that remains unpredictable and competitively intense. Loblaw plans to increase its investments in information technology and supply chain which will negatively impact operating income in 2011.

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 MAJOR CASH FLOW COMPONENTS

($ millions)	**2010**	2009	Change
Cash flows from operating activities of continuing operations	**$ 1,741**	$ 1,987	$ (246)
Cash flows used in investing activities of continuing operations	**$ (1,561)**	$ (3,152)	$ 1,591
Cash flows used in financing activities of continuing operations	**$ (170)**	$ (867)	$ 697
Cash flows from discontinued operations		$ 3,017	$ (3,017)

(1) See non-GAAP financial measures beginning on page 61.
(2) This outlook should be read in conjunction with the Forward-Looking Statements section of this MD&A on page 5.

Cash Flows from Operating Activities of Continuing Operations

Cash flows from operating activities of continuing operations in 2010 were $1,741 million compared to $1,987 million in 2009. The decrease when compared to 2009 was primarily due to a decrease in cash flows from non-cash working capital, partially offset by an increase in net earnings from continuing operations before non-cash items.

Cash Flows used in Investing Activities of Continuing Operations

Cash flows used in investing activities of continuing operations in 2010 were $1,561 million compared to $3,152 million in 2009. The decrease when compared to 2009 was primarily due to the decrease in outflows relating to short term investments, partially offset by the increase in fixed asset purchases and the increase in outflows relating to security deposits as a result of PC Bank's accumulation of cash of $167 million in 2010. Also impacting cash flows used in investing activities of continuing operations was $309 million net cash consideration in connection with business acquisitions in 2010 by Weston Foods and $204 million net cash consideration in connection with the acquisition of T&T by Loblaw in 2009.

The Company's capital investment in 2010 was $1.3 billion (2009 – $1.1 billion). Weston Foods capital investment was $24 million (2009 – $40 million). Loblaw's capital investment was $1.3 billion (2009 – $1.1 billion). Approximately 10% (2009 – 9%) of Loblaw's investments were for new store developments, expansions and land, approximately 44% (2009 – 38%) were for store conversions and renovations, and approximately 46% (2009 – 53%) were for infrastructure investments. The capital investment benefited the regions to varying degrees and strengthened the existing store base.

In 2009, Loblaw's capital investment of $1.1 billion included the purchase of a distribution centre for $140 million plus closing costs. Loblaw assumed long term debt secured by a mortgage of $96 million in connection with the purchase, resulting in net fixed asset purchases of $971 million in 2009.

Loblaw expects to invest approximately $1.0 billion in capital expenditures in 2011. Approximately 50% of these funds are expected to be expended upgrading the information technology and supply chain infrastructure. The remainder will be spent on retail operations as Loblaw plans to renovate certain banners and also to add approximately 1.1 million square feet of retail space.

Loblaw's 2010 corporate and franchised store capital investment program, which included the impact of store openings and closures, resulted in an increase in net retail square footage of 0.2% compared to 2009. During 2010, 11 (2009 – 41) corporate and franchised stores were opened, 13 (2009 – 33) corporate and franchised stores were closed, resulting in a net increase of 0.1 million square feet (2009 – 0.5 million square feet). In 2010, 160 (2009 – 211) corporate and franchised stores underwent renovations.

At year end 2010, the Company had committed approximately $96 million (2009 – $76 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Cash Flows used in Financing Activities of Continuing Operations

Cash flows used in financing activities of continuing operations in 2010 were $170 million compared to $867 million in 2009.

During 2010, GWL and Loblaw completed the following financing activities:

- Loblaw issued $350 million of unsecured 5.22% Medium Term Notes ("MTN") Series 2-B;
- Loblaw repaid $300 million of 7.10% MTN; and
- GWL issued $36 million of Series B Debentures.

During the third quarter of 2010, PC Bank began accepting deposits under a new Guaranteed Investment Certificate ("GIC") program. The GICs, which are sold through the broker channel, are issued with fixed terms ranging from 12 to 60 months and are non-redeemable prior to maturity. Individual balances up to $100,000 are insured by Canada Deposit Insurance Corporation (CDIC). As at the end of 2010, $18 million of GICs was recorded as long term debt on the consolidated balance sheet, of which $5 million was due within one year.

Subsequent to the end of 2010, Loblaw repaid $350 million of 6.5% MTN.

During 2009, GWL and Loblaw completed the following financing activities:

- Loblaw issued $350 million of unsecured 4.85% MTN Series 2-A;
- Loblaw repaid $125 million of 5.75% MTN;
- Loblaw assumed a mortgage of $96 million;
- GWL redeemed $265 million of preferred shares, Series II;
- GWL repaid $250 million of 5.90% MTN;
- GWL redeemed the 12.7% Promissory Notes; and
- GWL issued $37 million of Series B Debentures.

See notes 17, 18, 21 and 22 to the consolidated financial statements for the terms and details of the debt, capital securities and share capital transactions.

Employee Future Benefit Contributions
During 2011, the Company expects to contribute approximately $120 million 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 2011 to defined contribution 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.

8.2 SOURCES OF LIQUIDITY

The Company holds significant cash and short term investments denominated in Canadian and United States dollars. These funds are invested in highly liquid marketable short term investments consisting primarily of government treasury bills, corporate commercial paper, banker's acceptances and bank term deposits.

The Company obtains its short term financing through a combination of cash generated from operating activities, cash and cash equivalents, short term investments, bank indebtedness and amounts available to be drawn against Loblaw's credit facility.

Loblaw expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its committed credit facility will enable Loblaw to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding and financial obligations over the next 12 months. Loblaw has traditionally obtained its long term financing primarily through a Medium Term Notes program. Loblaw may refinance maturing long term debt with MTN if market conditions are appropriate or it may consider other alternatives. In addition, given reasonable access to capital markets, Loblaw does not foresee any impediments in obtaining financing to satisfy its long term obligations.

During the third quarter of 2010, Loblaw's Short Form Base Shelf Prospectus dated June 5, 2008 which allowed for the issuance of up to $1.0 billion of unsecured debentures and/or preferred shares, expired. During the fourth quarter of 2010, Loblaw filed a Short Form Base Shelf Prospectus which allows for the issuance of up to $1.0 billion of unsecured debentures and/or preferred shares over a 25-month period.

During 2008, Loblaw entered into an $800 million, 5-year committed credit facility with a syndicate of third-party lenders. The facility contains certain financial covenants with which Loblaw was in compliance throughout the year. In addition to cash and short term investments, this facility is the primary source of Loblaw's short term funding requirements and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates. As at the end of both 2010 and 2009, Loblaw had not drawn on the 5-year committed credit facility.

PC Bank participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to independent trusts pursuant to co-ownership agreements. PC Bank purchases receivables from and sells receivables to the trusts from time to time depending on PC Bank's financing requirements. In 2010, PC Bank securitized $600 million (2009 – nil) credit card receivables and repurchased $690 million (2009 – $50 million) of co-ownership interests in the securitized receivables from independent trusts. On December 15, 2010, *Eagle Credit Card Trust* ("Eagle"), an independent trust through which Loblaw securitizes its accounts receivable, issued two series of senior and subordinated notes maturing December 17, 2013 and December 17, 2015 for notional amounts of $250 million and $350 million, respectively. A portion of the securitized receivables was also renewed for two years during 2010.

The independent trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral of $114 million (2009 – $121 million) as at the end of 2010 as well as standby letters of credit issued by Loblaw as at the end of 2010 of $48 million (2009 – $116 million) based on a portion of the securitized amount.

On March 17, 2011, the five-year $500 million senior and subordinated notes issued by Eagle will mature. In conjunction with this upcoming maturity, Loblaw accumulated $167 million of cash on December 1, 2010. Subsequent to the end of 2010, Loblaw accumulated $167 million in January 2011 and a further $166 million in February 2011. In addition, subsequent to the end of 2010, Loblaw increased its securitization of accounts receivable by approximately $230 million under one of the independent trusts and expects to securitize further amounts coincident with the maturity of the Eagle Notes.

During 2010, Dominion Bond Rating Service ("DBRS") and Standard & Poor's ("S&P") reaffirmed Loblaw's credit ratings and trend and outlook, respectively. These ratings organizations base their forward-looking credit ratings on both quantitative and qualitative considerations. The following table sets out the current credit ratings of Loblaw:

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

The Company (excluding Loblaw) expects that cash and cash equivalents, short term investments and future operating cash flows will enable it to finance its capital investment program and fund its ongoing business requirements, including working capital and pension plan funding over the next 12 months. The Company (excluding Loblaw) may refinance maturing long term debt with MTN if market conditions are appropriate or it may consider other alternatives. In addition, the Company (excluding Loblaw) does not foresee any impediments in obtaining financing to satisfy its long term obligations.

During 2010, DBRS and S&P reaffirmed GWL's credit ratings and trend and outlook, respectively. These ratings organizations base their forward-looking credit ratings on both quantitative and qualitative considerations. The following table sets out the current credit ratings of GWL:

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

In 2010, GWL and Loblaw renewed their Normal Course Issuer Bid ("NCIB") programs to purchase on the Toronto Stock Exchange ("TSX") or enter into equity derivatives to purchase up to 5% of its common shares outstanding. In accordance with the requirements of the TSX, any purchases must be at the then market prices of such shares. GWL did not purchase any shares under its NCIB during 2010 or 2009. Loblaw did not purchase any shares under its NCIB during 2010. During 2009, Loblaw purchased for cancellation 1,698,400 of its common shares at a price of $33.14. In 2011, GWL and Loblaw each intend to renew their NCIB programs.

The Company establishes standby and documentary letters of credit used in connection with certain obligations related to the financing program for Loblaw's independent franchisees, the securitization of PC Bank's credit card receivables, real estate transactions, benefit programs, purchase orders and performance guarantees. At year end, the aggregate gross potential liability related to the Company's letters of credit was approximately $559 million (2009 – $588 million).

Independent Funding Trust

Certain independent franchisees of Loblaw obtain financing through a structure involving independent funding 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 by the independent funding trusts as at the end of 2010 was $405 million (2009 – $390 million), including $202 million (2009 – $163 million) of loans payable by VIEs consolidated by the Company. Loblaw has agreed to provide credit enhancement of $66 million (2009 – $66 million) in the form of a standby letter of credit for the benefit of the independent funding trust representing not less than 15% of the principal amount of the loans outstanding. This standby letter of credit has never been drawn upon. This credit enhancement allows the independent funding trust to provide financing 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.

During the second quarter of 2010, the $475 million, 364-day revolving committed credit facility that is the source of funding to the independent trusts was renewed. The financing structure has been reviewed and the Company has determined there were no additional VIEs to consolidate as a result of this financing.

8.3 CONTRACTUAL OBLIGATIONS

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 31, 2010:

Summary of Contractual Obligations

	Payments due by year						
($ millions)	2011	2012	2013	2014	2015	Thereafter	Total
Long term debt[(1)]	$ 733	$ 77	$ 419	$ 682	$ 182	$ 3,769	$ 5,862
Operating leases[(2)]	229	209	186	163	134	645	1,566
Contracts for purchase of real property and capital investment projects[(3)]	93			3			96
Purchase obligations[(4)]	122	41	26	10	10		209
Total contractual obligations	$ 1,177	$ 327	$ 631	$ 858	$ 326	$ 4,414	$ 7,733

(1) Long term debt includes capital lease obligations.
(2) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.
(3) These obligations include agreements for the purchase of real property and capital commitments for construction, expansion and renovation of buildings. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the underlying transactions.
(4) These include contractual obligations of a material amount to purchase goods or services where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. The purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods that are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with insignificant cost or liability to the Company. Also excluded are purchase obligations related to commodities or commodity-like goods for which a market for resale exists.

As at year end 2010, the Company had other long term liabilities which included accrued benefit plan liabilities, future income tax liabilities, stock-based compensation liabilities and accrued insurance liabilities. These long term liabilities have not been included in the table above for the following reasons:

- future payments of accrued benefit plan liabilities, principally post-retirement benefits, depend on when and if retirees submit claims;
- future payments of income taxes depend on the levels of taxable earnings and income tax rates;
- future payments of the share appreciation value on employee stock options depend on whether employees exercise their stock options, the market price of GWL or Loblaw common shares on the exercise date and the manner in which employees exercise those stock options;
- future payments of restricted share units depend on the market prices of GWL and Loblaw common shares; and
- future payments of insurance related obligations can extend over several years and depend on the timing of anticipated settlements and results of litigation.

8.4 OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Company enters into off-balance sheet arrangements including:

Letters of Credit

Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and performance guarantees. The aggregate gross potential liability related to Loblaw's letters of credit is approximately $325 million (2009 – $277 million) at year end 2010.

Guarantees

The Company has entered into various guarantee agreements including standby letters of credit in relation to the securitization of PC Bank's credit card receivables, third-party financing made available to Loblaw's independent franchisees, and obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. Additionally, Loblaw has a guarantee on behalf of PC Bank in the amount of U.S. $180 million. For a detailed description of the Company's guarantees, see note 29 to the consolidated financial statements.

Securitization of Credit Card Receivables

PC Bank participates in bank supported and term securitization programs. Under these programs, PC Bank sells a portion of the total interest in its credit card receivables to independent trusts in exchange for cash. The trusts fund these purchases by issuing debt securities in the form of asset-backed commercial paper or asset-backed term notes to third-party investors. The securitizations are accounted for as asset sales only when PC Bank transfers control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. All transactions between the trusts and PC Bank have been accounted for as sales as contemplated by Canadian GAAP, specifically AcG 12, "Transfers of Receivables". The trusts are either not controlled by PC Bank or are qualifying special purpose entities and therefore the financial results of the trusts are not included in the Company's consolidated financial statements.

PC Bank sells interests in its credit card receivables to the trusts on a fully serviced basis. PC Bank does not receive a servicing fee from the trusts for its servicing responsibilities and accordingly a servicing obligation is recorded. When a sale occurs, PC Bank retains rights to future cash flows after obligations to the investors in the trusts have been met, which is considered to be a retained interest. The independent trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral as well as standby letters of credit provided by major Canadian chartered banks for 9% (2009 – 9%) on a portion of the securitized amount. 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. The subordinated notes issued by Eagle provide credit support to those notes which are more senior. The retained interest is recorded at fair value.

As at year end 2010, the total amount of securitized credit card receivables outstanding which PC Bank continues to service was $1.6 billion (2009 – $1.7 billion) and the associated retained interest was $21 million (2009 – $13 million). During 2010, PC Bank earned income of $245 million (2009 – $235 million) related primarily to PC Bank's rights to excess cash flows earned on the securitized credit card receivables. In the absence of securitization, Loblaw would be required to use its cash and short term investments or raise alternative financing by issuing debt or equity instruments. Further disclosure regarding this arrangement is provided in notes 1 and 10 to the consolidated financial statements.

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. Further disclosure regarding this arrangement is provided in Section 8.2, "Independent Funding Trust", of this MD&A and in note 29 to the consolidated financial statements.

9. QUARTERLY RESULTS OF OPERATIONS

The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP.

9.1 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

($ millions except where otherwise indicated)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	**2010**	**$ 7,177**	**$ 7,530**	**$ 9,884**	**$ 7,417**	**$ 32,008**
	2009	$ 7,022	$ 7,484	$ 9,777	$ 7,537	$ 31,820
Net earnings (loss) from continuing operations	**2010**	**$ 42**	**$ 125**	**$ 184**	**$ 101**	**$ 452**
	2009	$ (27)	$ 4	$ 71	$ 79	$ 127
Net earnings	**2010**	**$ 42**	**$ 125**	**$ 184**	**$ 101**	**$ 452**
	2009	$ 863	$ 4	$ 86	$ 82	$ 1,035
Net earnings (loss) per common share from continuing operations ($)						
Basic	**2010**	**$ 0.25**	**$ 0.89**	**$ 1.32**	**$ 0.70**	**$ 3.16**
	2009	$ (0.28)	$ (0.05)	$ 0.44	$ 0.53	$ 0.64
Diluted	**2010**	**$ 0.25**	**$ 0.89**	**$ 1.31**	**$ 0.70**	**$ 3.14**
	2009	$ (0.28)	$ (0.05)	$ 0.44	$ 0.52	$ 0.63
Net earnings (loss) per common share ($)						
Basic	**2010**	**$ 0.25**	**$ 0.89**	**$ 1.32**	**$ 0.70**	**$ 3.16**
	2009	$ 6.61	$ (0.05)	$ 0.56	$ 0.56	$ 7.68
Diluted	**2010**	**$ 0.25**	**$ 0.89**	**$ 1.31**	**$ 0.70**	**$ 3.14**
	2009	$ 6.61	$ (0.05)	$ 0.56	$ 0.55	$ 7.67

Results by Quarter

Consolidated quarterly sales for the last eight quarters were impacted by the following significant items: the acquisition of ACE by Weston Foods in the fourth quarter of 2010, the acquisition of Keystone by Weston Foods in the third quarter of 2010, the acquisition of T&T by Loblaw in the third quarter of 2009, foreign currency exchange rates, seasonality and the timing of holidays.

Loblaw's average quarterly internal retail food price deflation/inflation for 2010 and 2009 remained lower than the average quarterly national retail food price inflation as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

Weston Foods 2010 quarterly sales were negatively impacted by foreign currency translation and lower pricing including increased promotional spending compared to the same periods in 2009. Third and fourth quarter sales and volumes were positively impacted by the acquisition of Keystone and ACE.

Consolidated quarterly net earnings for the last eight quarters were impacted by the following significant items:

- the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates, beginning in the first quarter of 2009;
- the commodity derivatives fair value adjustment at Weston Foods;
- accounting for WHL's forward sale agreement of 9.6 million Loblaw common shares;
- fluctuations in stock-based compensation net of equity derivatives of both GWL and Loblaw;
- the effect of changes in the federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options recorded in the fourth quarter of 2010;

- the asset impairment charge due to the closure of a Loblaw distribution centre in Quebec recorded in the second and third quarters of 2010;
- the loss on the redemption of the GWL 12.7% Promissory Notes in the second and third quarters of 2009;
- the non-cash goodwill impairment charge in Weston Foods' biscuits, cookies, cones and wafers business in the first quarter of 2009;
- the reversal of the cumulative foreign currency translation loss associated with Dunedin and certain of its affiliates in the first quarter of 2009;
- the reversal of the cumulative foreign currency translation loss associated with the reduction in the Company's U.S. net investment in self-sustaining foreign operations in the fourth quarter of 2009;
- the incremental costs related to Loblaw's investment in information technology and supply chain;
- restructuring and other charges incurred by Weston Foods and Loblaw;
- the gain on sale of Weston Foods' U.S. fresh bakery business in the first quarter of 2009; and
- seasonality and the timing of holidays.

At Loblaw, fluctuations in quarterly net earnings during 2010 reflect the underlying operations of Loblaw as well as the impact of specific charges including the impact of stock-based compensation net of equity forwards and costs related to the incremental investment in information technology and supply chain.

At Weston Foods, quarterly net earnings during 2010 were positively impacted by the benefits realized from cost reduction and productivity initiatives, lower input costs in the first three quarters, and lower legal and restructuring charges partially offset by lower pricing in certain product categories. The impact of seasonality is greatest in the third and fourth quarters and least in the first quarter.

9.2 FOURTH QUARTER RESULTS (UNAUDITED)

The following is a summary of selected unaudited consolidated financial information for the fourth quarter of 2010. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars. The analysis of the data contained in the table focuses on the results of continuing operations and changes in the financial condition and cash flows in the fourth quarter.

Selected Consolidated Information

(unaudited)	Quarters Ended	
($ millions except where otherwise indicated)	**Dec. 31, 2010**	Dec. 31, 2009
Sales	**$ 7,417**	$ 7,537
Operating income	**$ 330**	$ 287
Operating margin	**4.4%**	3.8%
Interest expense and other financing charges	**$ 67**	$ 99
Income taxes	**$ 101**	$ 39
Net earnings from continuing operations	**$ 101**	$ 79
Net earnings	**$ 101**	$ 82
Basic net earnings per common share from continuing operations ($)	**$ 0.70**	$ 0.53
Diluted net earnings per common share from continuing operations ($)	**$ 0.70**	$ 0.52
Basic net earnings per common share ($)	**$ 0.70**	$ 0.56
Diluted net earnings per common share ($)	**$ 0.70**	$ 0.55
EBITDA(1)	**$ 497**	$ 442
EBITDA margin(1)	**6.7%**	5.9%
Cash flows from (used in) continuing operations:		
Operating activities	**$ 641**	$ 638
Investing activities	**$ (500)**	$ (717)
Financing activities	**$ 9**	$ (14)

(1) See non-GAAP financial measures beginning on page 61.

The Company's fourth quarter 2010 basic net earnings per common share from continuing operations were $0.70 compared to $0.53 in the same period in 2009, an increase of $0.17. The year-over-year reduction in foreign currency translation losses positively impacted fourth quarter 2010 basic net earnings per common share from continuing operations by $0.27. Excluding these foreign currency translation losses and other specific items identified in the net earnings from continuing operations section below, the Company's basic net earnings per common share from continuing operations were $0.80 in the fourth quarter of 2010 compared to $0.89 in the same period in 2009. The strong improvement in operating performance from the Company's two operating segments, Weston Foods and Loblaw, was more than offset by an increase in income tax expense, primarily relating to certain prior year income tax matters, in the fourth quarter of 2010 compared to the same period in 2009.

Sales

Sales in the fourth quarter of 2010 were $7.4 billion compared to $7.5 billion for the same period in 2009, a decrease of 1.6%.

Consolidated sales for the fourth quarter of 2010 were impacted by each reportable operating segment when compared to the same period in 2009 as follows:

- Positively by 0.5% due to the sales increase of 9.7% and volume increase of 10.1% at Weston Foods. The acquisition of Keystone and ACE positively impacted sales growth and volume growth by approximately 11.0% and 9.1%, respectively, while foreign currency translation negatively impacted sales growth by approximately 1.9%. Excluding the acquisitions and foreign currency translation, sales increased 0.6% mainly due to an increase in volumes of 1.0% partially offset by the negative impact of lower pricing in certain product categories of 0.4%.
- Negatively by 2.0% due to the sales decrease of 2.1% at Loblaw. Same-store sales declined 1.6%. Loblaw's average quarterly internal retail food price index was flat. This compared to average quarterly internal retail food price deflation in the same period in 2009. Net retail square footage increased 0.1 million square feet or 0.3% in the fourth quarter of 2010 to 50.7 million square feet.

Operating Income

Operating income for the fourth quarter of 2010 was $330 million compared to $287 million in the same period in 2009, an increase of 15.0%. Consolidated operating margin of 4.4% for the fourth quarter of 2010 increased compared to 3.8% in the same period in 2009. The Company's fourth quarter 2010 consolidated operating income growth was positively impacted by 11.8% due to a reduction in foreign currency translation losses on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates and by 4.2% due to an increase of 4.4% in operating income at Loblaw. Operating income growth was negatively impacted by 1.0% due to a decrease of 5.2% in operating income at Weston Foods.

The year-over-year change in the following items influenced the Company's operating income in the fourth quarter of 2010 compared to the same period in 2009:

- a charge of $12 million (2009 – $46 million), of which $12 million (2009 – a gain of $6 million) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates and nil (2009 – a charge of $52 million) related to the reversal of cumulative foreign currency translation losses;
- a charge of $1 million (2009 – income of $11 million) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw; and
- income of $5 million (2009 – $12 million) related to the commodity derivatives fair value adjustment at Weston Foods.

Excluding the impact of the specific items noted above, operating income for the fourth quarter of 2010 remained strong compared to the same period in 2009.

The Company's consolidated EBITDA margin[1] for the fourth quarter of 2010 increased to 6.7% from 5.9% in the same period in 2009.

Interest Expense and Other Financing Charges

Interest expense and other financing charges for the fourth quarter of 2010 were $67 million, compared to $99 million in the same period in 2009. This decrease was primarily due to a decrease in the non-cash charge related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares of $29 million when compared to the same period in 2009.

Excluding the impact of this specific item, interest expense and other financing charges in the fourth quarter of 2010 decreased $3 million when compared to the same period in 2009.

Income Taxes

The fourth quarter 2010 effective income tax rate increased to 38.4% from 20.7% in the same period in 2009. The effective income tax rate for the fourth quarter of 2010 was affected by an increase in income tax expense relating to certain prior year income tax matters and a charge of $15 million related to changes in the federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options.

Net Earnings from Continuing Operations

Net earnings from continuing operations for the fourth quarter of 2010 were $101 million compared to $79 million in the same period in 2009. Basic net earnings per common share from continuing operations for the fourth quarter of 2010 were $0.70 compared to $0.53 in the same period in 2009.

Basic net earnings per common share from continuing operations were affected in the fourth quarter of 2010 compared to the same period in 2009 by the following factors:

- a $0.09 per common share charge (2009 – $0.36), of which $0.09 (2009 – $0.04 per common share income) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates and nil (2009 – a $0.40 per common share charge) related to the reversal of cumulative foreign currency translation losses;
- $0.04 per common share non-cash income (2009 – a $0.13 per common share non-cash charge) related to the accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares;
- a $0.08 per common share charge (2009 – nil) related to changes in the federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options;
- $0.02 per common share income (2009 – $0.07) related to the commodity derivatives fair value adjustment at Weston Foods; and
- $0.01 per common share income (2009 – $0.06) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw.

Discontinued Operations

Net earnings from discontinued operations for the fourth quarter of 2010 were nil compared to $3 million in the same period in 2009.

Net Earnings

Net earnings for the fourth quarter of 2010 were $101 million compared to $82 million in the same period in 2009. Basic net earnings per common share for the fourth quarter of 2010 were $0.70 compared to $0.56 in 2009, including net earnings from discontinued operations per common share of nil compared to $0.03 in the same period in 2009.

(1) See non-GAAP financial measures beginning on page 61.

Reportable Operating Segments

The Company's consolidated sales and operating income were impacted by each of its reportable operating segments as follows:

WESTON FOODS

(unaudited)	Quarters Ended	
($ millions)	**Dec. 31, 2010**	Dec. 31, 2009
Sales	**$ 386**	$ 352
Operating income	**$ 55**	$ 58
EBITDA[(1)]	**$ 69**	$ 70

(1) See non-GAAP financial measures beginning on page 61.

For the fourth quarter of 2010, Weston Foods sales of $386 million increased 9.7% and volumes increased 10.1% when compared to the same period in 2009. The acquisition of Keystone and ACE positively impacted sales growth and volume growth by approximately 11.0% and 9.1%, respectively, while foreign currency translation negatively impacted sales growth by approximately 1.9%. Excluding the acquisitions and foreign currency translation, sales increased 0.6% mainly due to an increase in volumes of 1.0% partially offset by the negative impact of lower pricing in certain product categories of 0.4%.

In the fourth quarter, the following sales analysis excludes the impact of foreign currency translation:

- fresh bakery sales, including fresh-baked sweet goods, decreased approximately 0.8%, mainly driven by lower sales volumes, partially offset by higher pricing. Volume declines were due to lower sales of private label products, partially offset by growth in the *Country Harvest* and *D'Italiano* brands. The introduction of new products, such as *Country Harvest* Ancient Grains*, Country Harvest* Raisin Cinnamon with Whole Wheat*, Jake's Bake House, Wonder+ SimplyFree* and *D'Italiano* Focaccia contributed positively to branded sales growth;
- frozen bakery sales increased by approximately 26.8%, mainly due to the acquisition of Keystone and ACE. Excluding the effects of these acquisitions, frozen bakery sales increased by approximately 2.8% primarily due to higher sales volumes. Increase in volume was due to increases in certain product categories, partially offset by the continued softness in the food service market and the loss of certain distributed products; and
- biscuit sales, principally wafers, ice-cream cones, cookies and crackers, decreased approximately 2.6% mainly due to lower prices in certain product categories. Volume increased in the fourth quarter of 2010 compared to the same period in 2009 due to growth in cookie and wafer sales, partially offset by lower cone and cup sales.

Weston Foods operating income was $55 million in the fourth quarter of 2010 compared to $58 million in the same period in 2009. Operating margin was 14.2% for the fourth quarter of 2010 compared to 16.5% in 2009.

The year-over-year change in the following items influenced operating income for the fourth quarter of 2010 compared to the fourth quarter of 2009:

- income of $6 million (2009 – $16 million) related to the effect of stock-based compensation net of equity derivatives; and
- income of $5 million (2009 – $12 million) related to the commodity derivatives fair value adjustment.

In addition, operating income for the fourth quarter of 2010 was negatively impacted by foreign currency translation due to a stronger Canadian dollar relative to the U.S. dollar.

Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. In the fourth quarter of 2010, a charge of $4 million (2009 – nil) was recorded in operating income related to restructuring activities.

Excluding these specific items described above, operating income in the fourth quarter of 2010 was strong compared to the same period in 2009. Operating income was positively impacted by sales growth as a result of the bakery acquisitions and by the benefits realized from productivity improvements and other cost reduction initiatives, which were partially offset by higher restructuring charges and the impact of lower pricing in certain product categories.

Gross margin, excluding the impact of the commodity derivatives fair value adjustment, was slightly lower in the fourth quarter of 2010 compared to the same period in 2009.

EBITDA[(1)] decreased to $69 million in the fourth quarter of 2010 compared to $70 million in the same period in 2009. EBITDA margin[(1)] decreased in the fourth quarter of 2010 to 17.9% from 19.9% in the same period in 2009, mainly due to the decrease in operating income as described above.

LOBLAW

(unaudited)	Quarters Ended	
($ millions)	**Dec. 31, 2010**	Dec. 31, 2009
Sales	**$ 7,161**	$ 7,311
Operating income	**$ 287**	$ 275
EBITDA[(1)]	**$ 440**	$ 418

(1) See non-GAAP financial measures beginning on page 61.

Sales in the fourth quarter decreased 2.1% to $7.2 billion compared to $7.3 billion in the same period in 2009. The following factors explain the major components that influenced sales in the fourth quarter of 2010 compared to the same period in 2009:

- same-store sales declined 1.6%;
- sales in food declined marginally;
- sales in drugstore declined moderately, impacted by deflation due to regulatory changes in Ontario and the impact of generic versions of certain prescription drugs;
- sales growth in apparel was moderate while sales of other general merchandise declined significantly due to lower discretionary consumer spending and reductions in assortment and square footage;
- gas bar sales growth was strong as a result of higher retail gas prices and moderate volume growth;
- Loblaw's average quarterly internal retail food price index was flat. This compared to average quarterly internal retail food price deflation in the same period in 2009. Average quarterly national food price inflation was 1.5% as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- during the fourth quarter of 2010, six corporate and franchised stores were opened and one corporate store was closed, resulting in a net increase of 0.1 million square feet or 0.3%.

Operating income increased by $12 million to $287 million in the fourth quarter of 2010 compared to $275 million in the same period in 2009. Operating margin was 4.0% for the fourth quarter of 2010 compared to 3.8% in the same period in 2009.

Gross profit increased by $46 million to $1,774 million in the fourth quarter of 2010 compared to $1,728 million in the same period in 2009. Gross profit as a percentage of sales was 24.8% in the fourth quarter of 2010 compared to 23.6% in the same period in 2009. This increase was primarily attributable to improved control label profitability, continued buying synergies and disciplined vendor management, the shift of pharmaceutical vendor rebates from selling and administrative expenses to gross profit, improved shrink and a stronger Canadian dollar. Increased transportation costs partially offset these improvements.

(1) See non-GAAP financial measures beginning on page 61.

Contributing to the increase in operating income was improved gross profit, as described above, partially offset by incremental costs of $27 million related to Loblaw's investment in information technology and supply chain, including incremental depreciation and amortization of $14 million, a charge of $7 million (2009 – $5 million) related to stock-based compensation net of equity forwards and a charge of $28 million (2009 – $27 million) for fixed asset impairments related to asset carrying values in excess of fair values for specific store locations.

EBITDA[(1)] increased $22 million, or 5.3%, to $440 million in the fourth quarter of 2010 compared to $418 million in the same period in 2009. EBITDA margin[(1)] increased in the fourth quarter of 2010 to 6.1% compared to 5.7% in the same period in 2009. The increases in EBITDA[(1)] and EBITDA margin[(1)] were primarily due to the increases in operating income and operating margin, as described above.

Liquidity and Capital Resources

Cash flows from operating activities of continuing operations

The Company's fourth quarter 2010 cash flows from operating activities of continuing operations were $641 million compared to $638 million in the same period in 2009. The increase when compared to the same period in 2009 was primarily due to the increase in net earnings from continuing operations before non-cash items and the settlement of equity forwards in the fourth quarter of 2009, partially offset by the change in non-cash working capital.

Cash flows used in investing activities of continuing operations

The Company's fourth quarter 2010 cash flows used in investing activities of continuing operations were $500 million compared to $717 million in the same period in 2009. The decrease when compared to the same period in 2009 was primarily due to the decrease in outflows relating to short term investments and credit card receivables, after securitization. Also impacting fourth quarter 2010 cash flows used in investing activities of continuing operations was $121 million net cash consideration in connection with business acquisitions by Weston Foods. During the fourth quarter of 2009, a distribution centre that was sold in 2007 was acquired by Loblaw for approximately $140 million including the assumption of a mortgage for $96 million. Capital expenditures for the fourth quarter of 2010 were approximately $463 million (2009 – $467 million).

Cash flows from (used in) financing activities of continuing operations

The Company's fourth quarter 2010 cash flows from financing activities of continuing operations were $9 million compared to cash flows used in financing activities of continuing operations of $14 million in the same period in 2009. The change when compared to the same period in 2009 was primarily due to Loblaw's purchase of common shares in the fourth quarter of 2009.

10. DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Chairman and President and the Chief Financial Officer have caused to be evaluated under their supervision the effectiveness of such disclosure controls and procedures. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2010.

11. INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

(1) See non-GAAP financial measures beginning on page 61.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Chairman and President and the Chief Financial Officer have caused to be evaluated under their supervision the effectiveness of such internal controls over financial reporting using the framework established in "Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)". Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2010.

In designing and evaluating such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

Changes in Internal Control over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on October 10, 2010 and ended on December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management has determined that no material changes occurred during this period.

During the first and third quarters of 2010, Loblaw successfully implemented the first and second phases of its ERP system. The implementation resulted in material changes in those periods to the internal controls over financial reporting for Loblaw's real estate and financial services divisions, corporate administration functions and the general ledger.

12. ENTERPRISE RISKS AND RISK MANAGEMENT

The Company is committed to establishing a framework that ensures risk management is an integral part of its activities. To ensure the continued growth and success of the Company, risks are identified and managed through GWL's and Loblaw's Enterprise Risk Management ("ERM") programs. The GWL and Loblaw Boards of Directors, respectively, have approved ERM policies and oversee the ERM programs through approval of risks and risk prioritization. The ERM programs assist all areas of the business in managing appropriate levels of risk tolerance by bringing a systematic approach, methodology and tools for evaluating, measuring and monitoring key risks. The results of the ERM programs and other business planning processes are used to identify emerging risks, prioritize risk management activities and develop risk-based internal audit plans.

Risk is not eliminated through the ERM programs. Risks are identified and managed within acceptable risk tolerances. The ERM programs are designed to:

- promote a cultural awareness of risk management and compliance within the Company;
- facilitate corporate governance by providing a consolidated view of risks across the Company and insight into the methodologies for identification, assessment, measurement and monitoring of the risks;
- assist in developing consistent risk management methodology and tools across the organization;
- ensure that resources are acquired economically, used efficiently and adequately protected; and
- allow the Company to focus on its key risks in the business planning process and optimize financial performance through responsible risk management.

Risk identification and assessments are important elements to the ERM framework. Annual ERM assessments are completed to assist in the update and identification of financial, operational or reputational risks and to effectively prioritize the risks. The annual ERM assessments are primarily carried out through interviews and risk assessments with senior management. Risks are assessed and evaluated based on vulnerability to the risk and the potential impact that the underlying risk would have on the ability to execute strategies and achieve objectives. Risks are assigned to appropriate risk owners and metrics are developed as appropriate for quarterly monitoring. Each quarter, management provides an update to the GWL or Loblaw Audit Committee of the status of the top risks based on significant changes from the prior quarter, anticipated impacts in future quarters and significant changes in key risk metrics. In addition, the long term (1-3 year) risk level is assessed in order to monitor potential long term impacts on the risk which may assist in risk mitigation planning activities.

The Internal Audit and Risk Management groups manage the ERM programs through the development of the risk framework and methodologies, completion of the annual ERM assessments, continuous monitoring of the key risks and quarterly reporting to the Audit Committees. The accountability for oversight of the management of each risk is allocated by the GWL or Loblaw Audit Committee to either the full Board or to a Committee of the Board. At least once a year, the relevant business owners update the applicable Committee or the full Board on their risk management activities over the course of the preceding year.

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

The operating, financial and reputational risks and risk management strategies are discussed below. Any of these risks has the potential to negatively affect financial performance. The Company has risk management strategies including insurance programs, which are intended to mitigate the potential impact of these risks. Although these strategies are designed to minimize these risks, the strategies do not guarantee that the associated risks will be mitigated or not materialize or that events or circumstances will not occur which could negatively affect the Company's financial condition or performance.

12.1 OPERATING RISKS AND RISK MANAGEMENT

Strategy Development and Execution
The Company undertakes from time to time acquisitions and dispositions that meet its strategic objectives. As a result of recent dispositions, the Company holds significant cash and short term investments and is continuing to evaluate strategic opportunities for the use or deployment of these funds. The use or deployment of the funds and the execution of the Company's capital plans could pose a risk if they do not align with the Company's strategic objectives or if the Company experiences integration difficulties on the acquisition of any businesses. In addition, the Company may not be able to realize upon the synergies, business opportunities and growth prospects expected from any such investment opportunities or from the execution of the Company's strategies. Finally, any acquisition or divestiture activities may present unanticipated costs and managerial and operation risks, including the diversion of management's time and attention from day-to-day activities. If the Company's strategies are not effectively developed and executed, the financial performance of the Company could be adversely affected.

ERP and Other Systems Implementations
Information technology ("IT") systems have been assessed by Loblaw management as needing significant upgrading in certain areas in order to act as an enabler for the businesses. An IT strategic plan was developed to guide the new systems environment that Loblaw requires.

In 2010, Loblaw began to deploy its new ERP system. This project, along with other systems implementations planned for 2011 and beyond, is one of the largest technology infrastructure programs ever implemented by Loblaw and is fundamental to its long term growth strategies. The work will transform the systems used in virtually every area of Loblaw's business. Completing it will require continued focus and significant investment over the next two years. The failure to successfully migrate from legacy systems to the ERP could negatively affect Loblaw's reputation and operations, and the Company's revenues and financial performance. Failure or disruption in Loblaw's IT systems during the implementation of the ERP or other new systems may result in a lack of relevant and reliable information to enable management to effectively achieve its strategic plan or manage the day-to-day operations of the business, causing significant disruptions to business and potential financial losses to the

Company. In addition, the failure to implement appropriate processes to support the ERP system may result in inefficiencies and duplication in current processes.

Change management risk and other associated risks will arise from the various projects which will be undertaken to upgrade existing systems and introduce new systems. Failure by the Company to appropriately invest in IT or failure to implement IT infrastructure in a timely or effective manner may negatively impact the Company's financial performance.

Information Integrity and Reliability
To support the current and future requirements of the business the Company is reliant on IT systems. These systems are essential to provide management with the appropriate information for decision making, including its key performance indicators, and when necessary must be appropriately supported through systems upgrades to and maintenance of infrastructure.

Although Loblaw has the appropriate controls in place over the conversion of data, the process of converting data from legacy systems to the ERP and other new systems increases the risk of poor data integrity and reliability if the data are not accurate and complete upon conversion. In addition, for the next few years Loblaw will operate in new and old systems at the same time. Ensuring that the data is flowing accurately between all systems and ensuring the integrity of this data once it is converted will be critical to maintain the integrity and reliability of Loblaw's financial information. Ownership of data management is essential to ensure ongoing reliability and relevancy of the data. Any failure or disruption of these systems during Loblaw's data conversion process for the ERP could negatively affect the Company's reputation, its operations, revenues and financial performance. Lack of relevant, reliable and accessible information that enables management to effectively manage the business may preclude the Company from optimizing its overall performance.

Change Management and Process Execution
Significant initiatives in support of Loblaw's renewal plan are underway or planned. These initiatives include the execution of its IT strategic plan and its ongoing organizational changes. Success of these initiatives is dependent on management effectively realizing the intended benefits and effectively executing the related processes. To assist in the management of change throughout the organization, the Company has positioned teams to support its major change initiatives. Certain employees have been assigned and are dedicated to business change management activities with a focus on integration of the business process and systems changes through communication, training and other change events in support of major change initiatives within the Company.

Ineffective change management or inexperienced employees leading change management could result in disruptions to the operations of the business or affect the ability of the Company to implement and achieve its long term strategic objectives. This could result from a lack of clear accountabilities, communication, training or lack of requisite knowledge, which may cause employees to act in a manner which is inconsistent with Company objectives. Failure to properly execute the various processes may increase the risk of customer dissatisfaction, which in turn could adversely affect the reputation, operations and financial performance of the Company. The failure to properly integrate several large, complex initiatives in a timely manner will adversely impact the operations of the Company. If employees are not able to develop and perform new roles, processes and disciplines, the Company may not always achieve the expected cost savings and other benefits of its initiatives.

Economic Environment
Economic factors that impact consumer spending patterns could deteriorate or remain unpredictable due to global economic volatility. These factors include continued high levels of unemployment, household debt, changes in interest rates, changes in inflation, changes in foreign currency exchange rates and access to consumer credit. Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in short term operating and longer term strategic decisions. Despite these

activities, one or more of these factors could negatively affect the Company's sales and margins. Inflationary trends are unpredictable and changes in the rate of inflation or deflation will affect consumer prices, which in turn could have a negative impact on the results of the Company.

Competitive Environment

The Company operates in increasingly competitive North American food processing and retail markets. Consumer demands and preferences for food products change continually. These demands and preferences are impacted by changing demographic and economic trends such as changes in disposable income, ethnic diversity, health and environmental awareness and time availability. Customer satisfaction is central to the Company's business. Over the past several years, consumers have demanded more choice, value and convenience and healthier products. If the Company is ineffective in responding to or identifying new trends in consumer preferences and demands, its revenues and financial performance could be negatively impacted.

The Company reviews and monitors operating plans and results, including market share in its reportable operating segments. When necessary, the operating segments will modify their operating strategies, including but not limited to, relocating production facilities or stores, closing underperforming assets, relocating stores or reformatting them under a different banner, reviewing and adjusting pricing, product offerings, brand positioning and/or marketing programs to take into account competitive activity. A significant competitive advantage the Company has developed is its brands. Both operating segments focus on brand development and building upon their core brand equity. Weston Foods' premium and mainstream brands provide Weston Foods with strong core brands and product lines that enhance consumer loyalty, trusted as they are for quality, great taste and freshness. Loblaw's control label program represents a competitive advantage because it enhances customer loyalty by offering superior value and provides some protection against national brand pricing strategies.

As cost pressures remain in the food processing industry and the competitive sales environment, Weston Foods anticipates that industry restructurings are likely. Although the outcome and the impact, if any, on the Company's consolidated financial results from this anticipated restructuring are uncertain, Weston Foods will closely monitor developments in the food processing industry and food retail market and, if required, adjust its strategies and programs as necessary.

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

The Company is also subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery market. Some of these competitors have extensive resources that allow them to compete vigorously in the market. Several of these competitors operate in a non-union environment. The Company's unionized workforce environment may reduce the ability of the Company to compete on labour costs or may adversely impact the Company's ability to react to the competition in a timely manner. Increased competition and pressures on growth and pricing could adversely affect the Company's ability to achieve its objectives. The Company's inability to effectively predict market activity or compete effectively with its current or future competitors could result in, among other things, reduced market share and lower pricing in response to its competitors' pricing activities.

Food Safety and Public Health

The Company is subject to risks associated with food safety and general merchandise product defects. These risks may arise as part of the manufacturing, procurement, storage, distribution, preparation and display of products and, with respect to the Company's control label or branded products and contract manufactured products, in relation to the production, packaging and design of products. A majority of the Company's sales are generated from food products and thus the Company could be vulnerable in the event of a significant outbreak of food-borne illness or other public health concerns related to food products. The occurrence of such events or incidents could result in negative publicity, damage to the Company's brands and potentially lead to legal claims. In addition, failure to trace or locate any contaminated or defective products and ingredients may affect the Company's ability to be effective in a recall situation. Any of these events could negatively impact the Company's revenues and financial performance.

In addition, failure to maintain the cleanliness and health standards at Loblaw's store level, including pest control, may negatively impact Loblaw's revenues and reputation.

Incident management processes are in place to manage such events, should they occur. The programs identify risks, provide clear procedures for communication to employees and consumers and are aimed at ensuring that potentially harmful products are expeditiously removed from inventory and are not available for sale. The Company also has extensive food safety procedures and training programs which address safe food handling and preparation standards. The Company endeavours to employ current best practices for the manufacturing, procurement, storage, distribution and preparation and display of food products. Also, it actively supports customer awareness of safe food handling and healthy choices. The Company places special focus on applying safety and quality management systems to ensure Weston Foods' products and Loblaw's control label products meet all food safety and regulatory requirements. The ability of these programs and procedures to address such events is dependent on their successful execution. The existence of these procedures does not mean that the Company will in all circumstances be able to mitigate the underlying risks and any event related to these matters has the potential to adversely affect the Company's reputation and its financial performance.

Distribution and Supply Chain
The need to invest in and improve the Company's supply chain may adversely affect the Company's capacity to effectively and efficiently attract and retain current and potential customers. A significant restructuring of Loblaw's supply chain will continue for the next eighteen months. Although this initiative is expected to result in improved service levels and product availability for Loblaw's stores, the scale of the change and the implementation of new processes could cause disruption in the flow of goods to stores, which would negatively affect the Company's revenues and financial performance. In addition, the integration of new supply chain systems with Loblaw's ERP could cause disruptions to the network if not properly executed which would also negatively affect the Company's revenues and financial performance.

Employee Retention and Succession Planning
The degree to which the Company is not effective in establishing appropriate succession planning processes and retention strategies could lead to a lack of requisite knowledge, skills and experience on the part of management. This, in turn, could affect the Company's ability to execute its strategies, efficiently run its operations and meet its goals for financial performance. Effective succession planning for senior management and employee retention are essential to sustaining the growth and success of the Company. In addition, loss of talent to the competition can be a significant risk to the Company's business strategy. Effective retention strategies will be necessary due to the significant changes, potential increase in workload and marketability of those employees who have developed specialized skills during the implementation of Loblaw's ERP and other significant initiatives in the Company.

Loblaw has implemented new programs throughout 2010 to assist in employee retention, succession planning and development. These will continue into 2011. The initiatives are focused on improving employee engagement and succession plans as well as supporting Loblaw's goal to "Be a Great Place to Work". Should these initiatives not be successful, Loblaw may not be able to execute its strategies or efficiently run its operations which in turn could negatively affect the Company's financial performance.

Merchandising
Loblaw's merchandising process may create inventory that customers don't want or need, is not reflective of current trends in customer tastes, habits, or regional preferences, is priced at a level customers are not willing to

pay, is late in reaching the market or does not have optimal commercial product placement on store shelves. Innovation is critical in order to respond to customer demands and to stay competitive in the marketplace. In addition, the Company's operations as they relate to food, sales volumes and product mix are impacted to some degree by certain holiday periods in the year. In 2010, Loblaw's active trading initiative was rolled out which included a focus on the merchandising group strategy, structure, roles and process improvements, to assist in installing best practices and efficiencies throughout the merchandising organization. If Loblaw is not successful with these initiatives, or if merchandising efforts are not effective or responsive to customer demand, the Company's revenues and financial performance could be negatively impacted.

Labour Relations

A significant portion of the Company's workforce is unionized. Renegotiating collective agreements may result in work stoppages or slowdowns, delays to construction projects and increases in costs. Any of these could negatively affect the Company's financial performance. The Company successfully negotiated 69 collective agreements in 2010 and the Company continues to negotiate the 88 remaining collective agreements carried over from prior years. In 2011, 59 collective agreements affecting approximately 16,000 employees expire with the largest of the agreements covering approximately 11,000 employees in Ontario expiring in June 2011. Although the Company attempts to mitigate work stoppages and disputes through early negotiations, work stoppages or slowdowns and the resulting negative effects on the Company's revenues and financial performance are possible.

Disaster Recovery and Business Continuity

The Company's ability to continue critical operations and processes could be negatively impacted by a weather disaster, work stoppage, prolonged IT failure, terrorist activity, power failures, border closures, a pandemic or other national or international catastrophe. The Company has a business continuity program which is being continually matured. However, ineffective contingency planning could result in reputational and/or financial losses to the Company. There can be no assurance that the existence of the program will ensure that the Company responds appropriately in the event of business interruptions, crises or potential disasters and negative impacts on revenue and financial performance could occur.

Inventory Management

Inappropriate inventory management may lead to excess inventory or a shortage of inventory which may impact customer satisfaction and overall financial performance. Loblaw may experience excess inventory that cannot be sold profitably or which could increase levels of inventory shrink which in turn could negatively impact the Company's financial performance. Loblaw focuses on reducing inventory levels and early identification of inventory at risk. New information systems are being implemented that are expected to improve demand forecasting. In order to reduce the amount of excess inventory, Loblaw monitors the impact of customer trends. Despite these efforts, Loblaw may experience excess inventory that cannot be sold profitably, which may negatively impact the Company's financial performance.

Commodity Prices

Weston Foods costs are directly impacted by fluctuations in the prices of commodity-linked raw materials such as wheat flours, sugars, vegetable oils, cocoa powders and chocolate. Loblaw is also exposed to commodity prices as a result of the direct link between commodities and the cost of consumer products. In addition, both Weston Foods and Loblaw are exposed to increases in the prices of electricity, natural gas and fuel in operating, in the case of Weston Foods, its bakeries and distribution centres, and, in the case of Loblaw, its stores and distribution centres. Both Weston Foods and Loblaw use purchase commitments and 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. Despite these strategies, high commodity prices could negatively impact the Company's financial performance.

Privacy and Information Security

The Company is subject to various laws regarding the protection of personal information of its customers and employees and has adopted a Privacy Code setting out guidelines for the handling of personal information. Any failure of the Company to comply with these laws could result in damage to its reputation and negatively affect financial performance. The Company's information systems contain personal information of customers and employees. Any failures or vulnerabilities in these security systems or non-compliance with information security standards, including those in relation to personal information belonging to the Company's customers and employees, could result in harm to the reputation of the Company and negatively affect financial performance.

Information security risks will also arise in the implementation of Loblaw's IT strategic plan. The strategic plan includes the upgrading of information security systems to adhere to information security standards by instituting more stringent security system protocols and corporate information security policies. A failure in Loblaw's information systems or non-compliance with information security standards, including those in relation to personal information belonging to Loblaw's customers and employees, could result in harm to the reputation or competitive position of Loblaw and could negatively affect the Company's financial performance.

Tax and Regulatory

Changes to any of the laws, rules, regulations or policies related to the Company's business including income, commodity and other taxes, and the production, processing, preparation, distribution, packaging and labelling of its products could have an adverse impact on the Company's financial and operational performance. New accounting pronouncements introduced by appropriate authoritative bodies may also impact the Company's financial results including the Company's transition to International Financial Reporting Standards. In the course of complying with such changes, the Company may incur significant costs. Changing regulations or enhanced enforcement of existing regulations could restrict its operations or profitability and thereby threaten the Company's competitive position and its capacity to efficiently conduct business. Failure by the Company to comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could have an adverse effect on the Company's financial results. PC Bank operates in a highly regulated environment. Failure by PC Bank to comply with, understand, acknowledge and effectively respond to the regulators could result in monetary penalties, regulatory intervention and reputational damage. Taxing authorities may also disagree with the positions and conclusions taken by the Company in its filings with such authorities. An unfavourable resolution to any such dispute could have an adverse effect on the Company's financial results.

In 2010, the provincial governments of Quebec, Ontario, Alberta, Nova Scotia and British Columbia introduced amendments to the regulation of generic prescription drug prices paid by provincial governments pursuant to their respective public drug benefit plans. Under these amendments, manufacturer costs of generic drugs paid by the provincial drug plans are being reduced, and in Ontario, the current system of drug manufacturers paying professional allowances to pharmacies will be eliminated. The amendments also reduce the manufacturer costs of generic drugs purchased out-of-pocket or through private employer drug plans. Loblaw continues to identify opportunities to mitigate the impact of these amendments, including the introduction of programs to add new services and enhance existing services to attract customers. The amendments could have a material impact on the financial results of the Company if Loblaw is not able to effectively mitigate their negative impact.

Vendor Management and Third-Party Service Providers

Certain aspects of the Company's business rely on third-party providers of goods and services. Although contractual arrangements are put in place with these suppliers, the Company has no direct influence over how the companies are managed. Negative events affecting the suppliers could in turn negatively impact the Company's reputation, operations and its financial performance. Inefficient, ineffective or incomplete vendor management strategies, policies and/or procedures may impact the Company's ability to optimize financial performance, meet customer needs and control costs and quality.

Vendor production capacity or IT capabilities may limit the Company's ability to service its customers or implement new processes to increase efficiencies and consistencies across vendors. Sourcing from developing markets results in enhanced risk which requires mitigation through additional safety, quality and management reviews.

Certain of Weston Foods' products and Loblaw's control label products are manufactured under contract by third-party suppliers. Product development and sourcing of Loblaw's control brand apparel products is conducted by a third party. In order to preserve brand equity, these suppliers are held to high standards of quality. Ineffective selection, contract terms, management and reliance on third-party service providers may impact the Company's ability to source Weston Foods' third-party manufactured products and Loblaw control brand products, to have products available for customers, to market to customers and to operate efficiently and effectively on a day to day basis.

The Company also uses third-party logistic services including the operation of dedicated warehouse and distribution facilities and third-party common carriers. The Company maintains a strategy of multiple sources for logistics providers so that in the event of a disruption of service from one supplier another supplier can be used. However, disruption in these services is possible, which could interrupt the flow of goods thereby negatively affecting sales.

The Company continues to implement practices and performance expectations with its supplier base, including asking suppliers to support sales plans and cost reduction initiatives and to align with major program changes. However, failure to effectively implement these programs will have a negative impact on the Company's ability to realize the expected benefits and could negatively impact revenues and financial performance.

President's Choice Financial banking services are provided by a major Canadian chartered bank. PC Bank uses third-party service providers to process credit card transactions, operate call centres and operationalize certain risk management strategies for the *President's Choice Financial* MasterCard®. To minimize operating risk, PC Bank and Loblaw actively manage and monitor their relationships with all third-party service providers. In addition, PC Bank has developed an outsourcing risk policy, approved by its Board of Directors, and has established a vendor governance team that provides its Board of Directors with regular reports on vendor governance and annual vendor risk assessments. Despite these activities, a significant disruption in the services provided by the bank would negatively impact revenues and the financial performance of the Company.

The Company relies on third parties for investment management, custody and other services for its cash equivalents, short term investments, security deposits and pension assets. Any disruption in the services provided by these suppliers could affect the return on these assets or liquidity of the Company.

Workplace Health and Safety

The failure of the Company to adhere to appropriate health and safety procedures and to ensure compliance with applicable laws and regulations could have an adverse effect on the organization's operations and financial performance.

The Company has established a national health and safety policy, a national health and safety management system and an injury reduction plan. Periodic updates are provided by health and safety employees to the executive team and quarterly updates are made to the Environmental, Health and Safety Committee of the Board. Loblaw has also developed a 3 year plan to establish a corporate wellness program. These initiatives cannot, however, prevent all workplace incidents. It remains possible that any such incident or series of incidents could have a negative impact on the Company's reputation, operations and financial performance.

Environmental

The Company maintains a large portfolio of real estate and infrastructure and is subject to environmental risks associated with the contamination of such properties and facilities, whether by previous owners or occupants, neighbouring properties or from its own operations.

The Company operates a number of underground storage tanks, the majority of which are used for the retailing of automotive fuel. Contamination resulting from leaks from these tanks is possible. The Company employs monitoring and testing regimens, in addition to risk assessments and audits, to minimize the potential for subsurface impacts from fuel losses. Loblaw also operates refrigerant equipment in its stores and distribution centres to preserve perishable products through the supply chain. These systems contain refrigerant gases which could be released if the related equipment fails. It is possible that a release of these gases could have adverse affects on the environment. To minimize the potential for refrigerant releases, the Company has implemented preventative maintenance programs and refrigeration system inspections and is considering the implementation of new refrigeration system technologies.

In recent years, provincial, municipal and other government bodies have introduced legislation that imposes liabilities on retailers, brand owners and importers for costs associated with recycling and disposal of consumer goods packaging and printed materials distributed to consumers. This is a growing trend and the Company expects to be subject to increased costs associated with these laws.

The Company has environmental programs and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, the Company employs environmental risk assessments and audits using internal and external resources together with employee awareness programs throughout its operating locations. The Environmental, Health and Safety Committee of the Board receives regular reporting from management addressing current and potential future issues, risks, programs/initiatives, identifying new regulatory concerns and related communication efforts. The Company's Environmental Affairs department works closely with the operations to help ensure requirements are met.

Despite these mitigation activities, the Company could be subject to increased or unexpected costs associated with environmental incidents and the related remediation activities, including litigation and regulatory related costs, all of which could negatively impact the Company's reputation and financial performance.

Recent consumer trends include an increasing demand for products with less impact on the environment and that the Company's operations demonstrate environmentally responsible practices. As set out in its annual Corporate Social Responsibility report, Loblaw sets environmental goals and monitors its progress towards their achievement. Should the Company fail to meet consumer demand in this area or otherwise face adverse publicity with respect to the environmental impact of its business practices, its reputation may be negatively affected which may lead to decreased revenues and a negative impact on financial performance.

Franchise and Independent Business Relationships
A significant portion of the Company's revenues and earnings arise from franchisee type relationships. Franchisees and independent operators are independent businesses and, as such, their operations may be negatively affected by factors beyond the Company's control, which in turn may damage the Company's reputation and potentially affect revenues and financial performance. Revenues and earnings could also be negatively affected, and Loblaw's reputation could be harmed, if a significant number of retail franchisees were to experience operational failures, including health and safety exposures, financial difficulty, or were unwilling or unable to pay Loblaw for products, rent or other fees, or fail to enter into renewals of franchise agreements. Loblaw's franchise system is also subject to franchise legislation enacted by a number of provinces. Any new legislation or failure to comply with existing legislation may negatively affect operations and could add administrative costs and burdens, any of which could affect the Company's relationship with its franchisees and independent operators. These relationships could pose significant risks if they are disrupted which could result in legal action, reputational damage and/or adverse financial consequences. Supply chain or system changes by the Company could cause or be perceived to cause disruptions to franchise operations and could result in negative effects on franchisee revenues or earnings. Reputational damage or adverse consequences for the Company, including litigation and disruption to sales from franchised stores, could result.

Contract Management and Records Retention

The Company's contract management and records management processes are being upgraded. A lack of effective processes for the tendering, drafting, review and approval of Company contracts and the appropriate level of management and legal involvement increases the risk of financial losses to the business. In addition, inefficient, ineffective or incomplete document management and retention policies, procedures and practices increase the risk of incomplete Company records and potential non-compliance with laws and regulations, which could negatively impact the Company's reputation and financial performance.

Trademark and Brand Protection

Decrease in value of the Company's trademarks, banners or control brands, as a result of adverse events, changes to the branding strategies or otherwise, could weaken the demand for the Company's products or services or damage the Company's reputation. The Company endeavours to have the appropriate contractual protections in Loblaw's arrangements with control label vendors and suppliers of all marketing elements including printing, flyers and advertising agencies, and Weston Foods' arrangements with contract manufacturers, distributors and customers. The Company actively monitors and manages its trademark portfolio. Despite these activities, adverse events could impact the value of the Company's trademarks, banners or brands and may negatively affect revenues and financial performance.

Employee Future Benefit Contributions

The Company manages the assets in its defined benefit pension plans by engaging professional investment managers who operate under prescribed investment policies and procedures in respect of permitted investments and asset allocations. The future contributions to the Company's pension plans are impacted by a number of variables, including the investment performance of the plan assets and the discount rate used to value the liabilities of the plans. The Company regularly monitors and assesses plan performance and the impact of changes in participant demographics, changes in capital markets and other economic factors that may impact funding requirements, employee future benefit costs and actuarial assumptions. If capital market returns are below assumed levels, or if the discount rate drops, the Company may be required to make contributions to its funded defined benefit pension plans in excess of those currently contemplated, which in turn may have a negative effect on the Company's financial performance and cash flows.

Multi-Employer Pension Plans

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits to union employees pursuant to provisions of collective bargaining agreements. Approximately 39% (2009 – 39%) of employees of the Company and of its independent franchisees participate in these plans. The administration of these plans and the investment of their assets are controlled by boards of independent trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company may have a representative on the board of trustees of these multi-employer pension plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements; however, poor performance of these plans could have an adverse impact on the Company's employees and former employees who are members of these plans. Pension cost for these plans is recognized as contributions are due.

Loblaw is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), with approximately 54,000 (2009 – 55,000) employees as members. In 2010, Loblaw contributed $55 million (2009 – $54 million) to CCWIPP. At the end of 2010, the CCWIPP actuarial accrued benefit obligations exceeded the value of the assets held in trust. As a result of this underfunding, CCWIPP received approval from the pension regulator to reduce the accrued benefits and future service benefits of certain participants. Further benefit reductions would negatively affect the retirement benefits of Loblaw's employees, which in turn could negatively affect their morale and performance.

Real Estate and Store Renovations
Loblaw maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances Loblaw's operating flexibility by enabling Loblaw to introduce new departments and services that could be precluded under third-party operating leases. As part of its ongoing review of the performance of its stores, Loblaw from time to time undertakes store renovations. Efforts are made to minimize the duration of these projects in order to limit the disruption at store level. However, the Company's revenues and financial performance will be negatively impacted if such renovations and remodelling are carried out in a manner that is disruptive to Loblaw's ongoing store operations or results in a poor customer experience.

Ethical Business Conduct
The Company has adopted a Code of Business Conduct which colleagues and directors of the Company are required to acknowledge on a regular basis. The Company has in place an Ethics and Business Conduct Committee which monitors compliance with the Code of Business Conduct and determines how the Company can best ensure it is conducting its business in an ethical manner. The Company encourages reporting of unethical conduct and has established a toll-free anonymous response line, which can be used by employees to report suspected accounting, internal control or auditing irregularities and unethical behaviour impacting the Company. Loblaw has also adopted a Vendor Code of Conduct which outlines its ethical expectations to its vendor community in a number of areas, including social responsibility. Any failure of the Company or its vendors to adhere to ethical business conduct policies could significantly affect the Company's reputation and brands and could, therefore, negatively impact the Company's financial performance.

Holding Company Structure
GWL is a holding company. As such, it does not carry on business directly but does so through its subsidiaries. It has no major source of operating income or assets of its own, other than the interests it has in its subsidiaries, which are all separate legal entities. GWL is therefore financially dependent on dividends and other distributions it receives from its subsidiaries.

12.2 FINANCIAL RISKS AND RISK MANAGEMENT

Foreign Currency Exchange Rate
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 net 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 foreign currency translation gains and losses. Those gains and losses arising from the translation of the U.S. dollar denominated assets of integrated foreign subsidiaries are included in operating income, while for the self-sustaining operations in the United States, foreign currency translation gains and losses are recorded in accumulated other comprehensive loss. In addition, 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, 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 and foreign exchange forward contracts that partially offset their respective exposure to fluctuations in foreign currency exchange rates. Cross currency swaps are transactions in which interest payments and principal amounts in one currency are exchanged against the receipt of interest payments and principal amounts in a second currency.

Despite these mitigation strategies the Company's financial performance could be negatively impacted by foreign currency variability.

Credit

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 and cash equivalents, short term investments, security deposits, pension assets held in the Company's defined benefit plans, PC Bank's credit card receivables and other receivables from Weston Foods' customers 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 derivative agreements with counterparties that have at minimum a 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, which require ongoing assessment and corrective action, if necessary, are in place 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. Efforts to mitigate credit risk include policies and guidelines that require issuers of permissible investments to have at minimum a 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. These investments are purchased and held directly in custody accounts and have limited exposure to third-party money market portfolios and funds.

Credit risk associated with investments in the Company's defined benefit pension plans is described in the Employee Future Benefits Contributions discussion in Section 12.1, "Operating Risks and Risk Management", of this MD&A.

Credit risk from PC Bank's credit card receivables, receivables from Weston Foods' customers 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 the 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.

Despite the mitigation strategies described above, it is possible that the Company's financial performance could be negatively impacted by the failure of a counterparty to fulfill its obligations, whether as a result of loss of value of receivables or increased costs associated with counterparty default.

Interest Rate

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 rates which are offset partly by Glenhuron's and Loblaw's interest rate swaps. Interest rate swaps are transactions in which interest flows are exchanged with a counterparty on a specified notional amount for a pre-determined period based on agreed-upon fixed and floating interest rates. Despite these interest rate swaps, changes in interest rates could negatively affect the Company's cash flows and financial performance.

Common Share Market Price

GWL and Loblaw issue stock-based compensation to certain of their employees in the form of stock options and Restricted Share Units ("RSUs") based on their respective underlying common shares. Consequently, operating results are negatively impacted when the common share prices increase and positively impacted when the 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 costs, 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.

Changes in the Loblaw common share price impact the Company's interest and other financing charges. In 2001, Weston Holdings Limited ("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 $84.09 (2009 – $80.28) per Loblaw common share as at December 31, 2010. 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. The obligation of WHL under this forward is secured by the underlying Loblaw common shares. WHL recognizes a non-cash charge or income, which is included in consolidated interest expense and other financing charges, representing the fair value adjustment of WHL's forward sale agreement for 9.6 million shares. The fair value adjustment in the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw shares it owns. At maturity, if the forward price is greater than the market price, WHL will receive a cash amount equal to the difference. If the forward price is less than the market price, WHL will pay a cash amount equal to the difference. Any cash paid under the forward contract could be offset by the sale of Loblaw shares.

Liquidity and Capital Availability

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. Insufficient access to capital would impair the Company's capacity to grow, execute its business model and generate financial returns.

The Company mitigates liquidity and capital availability risks by maintaining appropriate levels of cash and cash equivalents and short term investments, committed lines of credit as required, actively monitoring market conditions and by diversifying its sources of funding and maturity profile of its debt and capital obligations.

Should Loblaw's or PC Bank's financial performance and condition deteriorate or downgrades in Loblaw's current credit ratings occur, Loblaw's or PC Bank's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent risks that may negatively affect Loblaw's access and ability to fund its financial and other liabilities.

Should GWL's financial performance and condition deteriorate or downgrades in GWL's current credit ratings occur, GWL's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent risks that may negatively affect GWL's access and ability to fund its financial and other liabilities.

Derivative Instruments

Over-the-counter derivative instruments offset certain risks. Policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. See notes 1 and 26 to the consolidated financial statements for additional information about the Company's financial derivative instruments. The fair value of derivative instruments is subject to changing market conditions which could negatively impact the Company's cash flows and financial performance.

13. 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 2010, rental payments amounted to approximately $3 million (2009 – $3 million). It is the Company's policy to conduct all transactions and settle balances with related parties on market terms and conditions.

From time to time, the Company, Wittington and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations. These elections and accompanying agreements did not have a material impact on the Company in 2010.

14. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that the Company may undertake in the future. Actual results could differ from these estimates.

The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain and changes in these estimates and assumptions could materially impact the consolidated financial statements.

Inventories

The Company's inventories are stated at the lower of cost and estimated net realizable value. For its retail store inventories, Loblaw is required to make estimations or judgments in the determination of (i) discount factors used to convert inventory to cost after a physical count at retail has been completed and (ii) estimated inventory losses, or shrinkage, occurring between the last physical inventory count and the balance sheet date.

Inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is determined at the category level, is calculated in relation to historical gross margins and is reviewed on a regular basis for reasonableness. Inventory shrinkage, which is calculated as a percentage of sales, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet date. To the extent that actual losses experienced vary from those estimated, both inventories and operating income will be impacted. Changes or differences in these estimates may result in changes to inventories on the consolidated balance sheet and a charge or credit to operating income in the consolidated statement of earnings.

Additional information on inventories is provided in note 12 to the consolidated financial statements.

Fixed Assets

Fixed assets are reviewed for impairment annually and when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted future cash flows expected from their use and eventual disposition. An impairment loss is measured as the amount by which the fixed assets carrying value exceeds the fair value. As discussed in note 13 to the consolidated financial statements, Loblaw recorded a fixed asset impairment charge of $28 million (2009 – $27 million) and other related charges of $18 million (2009 – $19 million) in 2010.

In addition, Loblaw recorded in operating income an asset impairment charge of $26 million (2009 – nil) related to the closure of a distribution centre in Quebec. Weston Foods recorded a fixed asset impairment charge of $1 million (2009 – $1 million) and accelerated depreciation of nil (2009 – $2 million).

The factor that most significantly influences the impairment assessments is the determination of future cash flows. Loblaw uses its internal plans in estimating future cash flows. These plans reflect Loblaw's current best estimate of future cash flows but may change due to uncertain competitive and economic market conditions or changes in business strategies. Changes or differences in these estimates may result in changes to fixed assets on the consolidated balance sheet and a charge to operating income on the consolidated statement of earnings.

Employee Future Benefits

The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans are accrued based on actuarial valuations which are dependent on assumptions determined by management. These assumptions include 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. These assumptions are reviewed annually by management and the Company's actuaries.

The discount rate, the expected long term rate of return on plan assets and the expected growth rate in health care costs are the three most significant assumptions.

The discount rates are based on market interest rates, as at the Company's measurement date of September 30 on a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations. The discount rates used to determine the 2010 net cost for defined benefit pension and other benefit plans were 5.7% and 5.5%, respectively, on a weighted average basis, compared to 6.0% and 5.9%, respectively, in 2009.

The expected long term rate of return on plan assets is based on current market conditions, the asset mix, the active management of defined benefit pension plan assets and historical returns. The 2010 expected long term rate of return on plan assets was 6.75% in Canada and 6.50% in the United States.

The expected growth rate in health care costs for 2010 was based on external data and the Company's historical trends for health care costs. In 2011, the growth rate of health care costs in Canada is estimated at 8.0% and is assumed to gradually decrease to 5.0% by 2015, remaining at that level thereafter. The growth rate of health care costs in the United States is estimated at 8.5% and is assumed to gradually decrease to 5.0% by 2019, remaining at that level thereafter.

Since the three key assumptions discussed above are forward-looking and long term in nature, they are subject to uncertainty and actual results may differ materially. In accordance with Canadian GAAP, differences between actual results and the assumptions, as well as the impact of changes in the assumptions, are accumulated as unamortized net actuarial gains or losses and amortized over future periods, affecting the recognized cost of defined benefit pension plans and other benefit plans and the accrued benefit plan obligation in future periods. Although the Company believes that its assumptions are appropriate, differences in actual results or changes in the Company's assumptions may materially affect its defined benefit pension plans and other benefit plans accrued benefit plan obligations and future costs.

Additional information regarding the Company's pension and other benefit plans, including a sensitivity analysis for changes in key assumptions, is provided in note 16 to the consolidated financial statements and in the Employee Future Benefit Contributions discussion in Section 12.1, "Operating Risks and Risk Management", of this MD&A.

Goodwill and Intangible Assets

Goodwill 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 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 in operating income to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value.

The Company determines the fair value 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 regarding 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. 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 and changes in business strategies.

During the fourth quarter of 2010, the Company performed its annual goodwill impairment test and determined that the fair value of each of the reporting units exceeded its respective carrying value and therefore no goodwill impairment was identified.

During 2009, subsequent to the disposition of its U.S. fresh bakery business on January 21, 2009, Weston Foods reorganized its remaining operations. The reorganization changed the composition of Weston Foods' reporting units for the purpose of goodwill impairment testing. As a result of this change, the goodwill related to the biscuits, cookies, cones and wafers business was determined to be impaired and a write-down of $73 million was recorded in the first quarter of 2009.

Intangible assets with an indefinite useful 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 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 the recognition of a non-cash impairment charge in operating income.

The Company determines the fair value of its trademarks and brand names by using the "Relief from Royalty" method, a discounted cash flow model. Weston Foods determines the fair values of its customer relationships by using an income approach, specifically the "Excess Earnings" 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 and discount rates are based on an industry after-tax cost of equity. Intangible assets with a finite life are amortized over their estimated useful lives, ranging from 10 to 30 years. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

During the fourth quarter of 2010, the Company performed the annual impairment test of its indefinite life intangible assets and determined that there was no impairment of the carrying value of indefinite life intangible assets.

Income and Other Taxes

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 assets and liabilities and their respective income tax bases. Future income tax assets or 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 calculation of current and future income taxes requires management to make estimates and assumptions and to exercise judgment regarding the financial statement carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by the tax authorities. Management believes it has adequately provided for income taxes based on currently available information.

At each balance sheet date, future income tax assets are reviewed to determine whether a valuation allowance is required. Such an allowance is not required when it is deemed more likely than not that projected future taxable income will be sufficient to realize the future income tax benefits.

Changes or differences in the underlying estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts.

All income, capital and commodity tax filings are subject to audits and reassessments. Management believes that adequate provisions have been made for all income and other tax obligations. However, changes in interpretations or judgments may result in a change in the Company's income, capital or commodity tax provisions in the future. The amount of such a change cannot be reasonably estimated.

15. ACCOUNTING STANDARDS IMPLEMENTED IN 2009

Goodwill and Intangible Assets
In November 2007, the Canadian Institute of Chartered Accountants ("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.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
On January 20, 2009, the Emerging Issues Committee ("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 required the abstract to be applied retrospectively without restatement of prior periods. Financial assets and financial liabilities, including derivative instruments, were remeasured as at January 1, 2009 to take into account the appropriate Company's credit risk and counterparty credit risk. As a result, a decrease in other assets of $12 million, a decrease in other liabilities of $4 million, a decrease in minority interest of $3 million, an increase net of income taxes and minority interest in accumulated other comprehensive loss of $1 million and a decrease in retained earnings net of income taxes and minority interest of $4 million 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 was implemented by the Company in 2009 (see note 27 to the consolidated financial statements). The implementation of these amendments did not have an impact on the Company's results of operations or financial condition.

16. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board requires that all public companies adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Company's audited annual consolidated financial statements for the year ending December 31, 2011 will be the first audited annual consolidated financial statements that will be prepared in accordance with the requirements of IFRS. Starting in the first quarter of 2011 the unaudited interim period consolidated financial statements will be prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", including 2010 comparative figures and required reconciliations prepared in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards" ("IFRS 1").

Project Structure and Status

The Company has an IFRS team led by the Chief Financial Officer to ensure the timely and appropriate implementation of IFRS. The IFRS team consists of dedicated resources as well as consultants and other employees on an as needed basis. This team reports regularly to a steering committee comprised of senior management, as well as to the Audit Committee.

The Company's IFRS conversion project plan consists of three main phases:

Phase One: Diagnostic Impact Assessment This phase consisted of a high-level impact assessment that identified the key areas of accounting differences between Canadian GAAP and IFRS that were likely to impact the Company. The diagnostic impact assessment was completed in 2008 and resulted in the ranking of accounting differences as high, medium, or low priority.

Phase Two: Detailed Assessment This phase involved a comprehensive assessment of the differences between IFRS and the Company's current accounting policies and included reviews with the various finance groups and business process owners to further understand the impact of these differences. The detailed assessment was completed in April 2009 at which time the changes required to existing accounting policies, business process and information systems were identified.

Phase Three: Implementation This phase includes two components: implementation development and implementation transition and resulted in the compilation of IFRS transitional adjustments, as required, as well as IFRS financial statements for 2010 with required reconciliations to Canadian GAAP. To achieve this result the changes identified in the detailed assessment phase were implemented as discussed below.

Policy Selection The analysis of policy alternatives under IFRS, including certain exemptions and elections available on transition in accordance with IFRS 1, was completed in 2010. Management has preliminarily concluded on all of its policy alternatives, and obtained preliminary audit committee approval of these choices. These preliminary conclusions and approvals will be finalized prior to the end of the first quarter of 2011.

Business Processes Changes to business processes, including the budgeting and planning process, arising as a result of IFRS were also identified in the detailed assessment phase. Certain immaterial changes were taken into account in the budgeting and planning cycle that occurred throughout 2010. All other required business process changes were also implemented by the end of 2010.

Information Systems Changes to supporting information systems were identified in the detailed assessment phase. Required changes to supporting information systems were designed, developed and implemented by the end of 2010. The IFRS conversion project is integrated with Loblaw's ERP implementation. As ERP phases have been deployed, Loblaw has ensured that the requirements of IFRS adoption were incorporated. For ERP phases that have not yet been deployed, Loblaw is ensuring that the requirements of IFRS are identified and incorporated.

Financial Statement Presentation In accordance with the Company's transition plan, the Company also completed its preliminary first quarter 2011 IFRS financial statement format and draft note disclosures. In addition, the Company has completed its preliminary unaudited opening transitional balance sheet as well as financial statements for each of the quarters of 2010 based on the preliminary elections and exemptions as discussed below. A summary of the significant impacts is provided below.

Training Targeted training regarding anticipated changes resulting from IFRS implementation was provided to appropriate business units and finance colleagues throughout 2010 and will continue as appropriate into 2011. In addition, the Company provided quarterly and supplementary IFRS information sessions to the Board which included updates on certain preliminary transitional and 2010 quarterly IFRS adjustments including preliminary policy choices, implications of IFRS standards to the business, and their impacts on financial statement disclosures. As previously announced, the Company will provide an information session on March 3, 2011 to key external stakeholders regarding the impacts of IFRS.

Contractual Arrangements and Covenants The implementation of IFRS is expected to have an impact on certain financial metrics that are used in calculating Loblaw's financial covenants under certain of its debt agreements. These debt agreements provide for the opportunity to renegotiate the covenants to reflect the impact of the transition to IFRS. Loblaw has reached an understanding with certain of its lenders to defer any adjustments that may be required to its borrowing agreements until such later date that the parties may agree following the adoption of IFRS. Loblaw will continue to demonstrate compliance with its borrowing agreements on a basis that is consistent with Canadian GAAP as it exists immediately prior to the conversion to IFRS, until such time that the parties agree to formalize the adjustments for IFRS.

Internal Control Compliance Changes to the Company's internal controls over financial reporting and disclosure controls and procedures, which include enhancement of existing controls and the design and implementation of new controls, where needed, are in process and progressing to plan. At this time the Company expects no material change in internal controls over financial reporting or disclosure controls and procedures resulting from the adoption and implementation of IFRS.

Preliminary Estimated Impact of Conversion
The information below is provided to allow investors and others to obtain an understanding of the preliminary unaudited effects on the Company's consolidated financial statements and operating performance measures. The changes described below should not be regarded as a complete description of the changes resulting from the transition to IFRS. Readers are cautioned that it may not be appropriate to use such information for any other purpose and the information is subject to change.

The International Accounting Standards Board has significant ongoing projects that could change the current standards under IFRS and their impact on the Company's consolidated financial statements. Therefore, the Company's analysis of changes and accounting policy decisions have been made based on the accounting standards that are currently in effect. To date, the Company has made preliminary decisions relating to certain IFRS policies as discussed below. The following information is contingent on the standards that will be effective as at December 31, 2011, the date of the Company's first audited annual consolidated financial statements prepared in accordance with IFRS.

The table below summarizes the estimated impact of conversion to IFRS on the Company's key financial highlights from the unaudited (except where otherwise noted) consolidated statements of earnings for each of the interim periods and year ended December 31, 2010, based on the preliminary elections and exemptions noted below:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		2010	
($ millions, except where otherwise indicated)	Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP (audited)	IFRS
Revenue	$ 7,177	$ 7,165	$ 7,530	$ 7,480	$ 9,884	$ 9,827	$ 7,417	$ 7,366	$ 32,008	$ 31,838
Operating income	$ 274	$ 304	$ 389	$ 397	$ 490	$ 493	$ 330	$ 322	$ 1,483	$ 1,516
Net earnings attributable to shareholders of the Company	$ 42	$ 41	$ 125	$ 123	$ 184	$ 176	$ 101	$ 86	$ 452	$ 426
Basic net earnings per common share ($)	$ 0.25	$ 0.24	$ 0.89	$ 0.88	$ 1.32	$ 1.25	$ 0.70	$ 0.59	$ 3.16	$ 2.96
Diluted net earnings per common share ($)	$ 0.25	$ 0.17	$ 0.89	$ 0.84	$ 1.31	$ 1.18	$ 0.70	$ 0.52	$ 3.14	$ 2.74
EBITDA	$ 438	$ 458	$ 550	$ 549	$ 707	$ 704	$ 497	$ 488	$ 2,192	$ 2,199
EBITDA margin	6.1%	6.4%	7.3%	7.3%	7.2%	7.2%	6.7%	6.6%	6.8%	6.9%

The table below reconciles EBITDA to the unaudited IFRS net earnings attributable to shareholders of the Company for each of the interim periods and year ended December 31, 2010, based on the preliminary elections and exemptions noted below:

($ millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	2010
Net earnings attributable to shareholders of the Company	$ 41	$ 123	$ 176	$ 86	$ 426
Add impact of the following:					
Non-controlling interest	51	66	72	48	237
Income taxes	68	92	118	99	377
Net interest expense and other financing charges	144	116	127	89	476
Operating income	$ 304	$ 397	$ 493	$ 322	$ 1,516
Depreciation and amortization	154	152	211	166	683
EBITDA	$ 458	$ 549	$ 704	$ 488	$ 2,199

In addition, the table below summarizes the estimated impact of conversion to IFRS on the Company's unaudited opening transitional balance sheet as at January 1, 2010 and as at December 31, 2010, based on the preliminary elections and exemptions noted below:

	Jan. 1, 2010			Dec. 31, 2010		
($ millions)	Canadian GAAP (audited)	IFRS (unaudited)	% Change	Canadian GAAP (audited)	IFRS (unaudited)	% Change
Total assets	$ 20,143	$ 21,158	5.0%	$ 20,854	$ 21,661	3.9%
Total liabilities	$ 13,201	$ 13,171	(0.2)%	$ 14,722	$ 14,416	(2.1)%
Total equity(1)	$ 6,942	$ 7,987	15.1%	$ 6,132	$ 7,245	18.2%

(1) Includes non-controlling interest of $2,379 million as at January 1, 2010 and $2,596 million as at December 31, 2010, which was presented in total liabilities under Canadian GAAP.

First-Time Adoption of IFRS
The adoption of IFRS will require the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of all IFRS standards, with the exception of certain mandatory exceptions and limited optional exemptions provided in the standard. The following are the significant optional exemptions that the Company expects to apply in preparing the opening transitional balance sheet in accordance with IFRS 1.

Employee Benefits The Company expects to apply the election to recognize, for all defined benefit plans, all cumulative unamortized actuarial gains and losses, which are currently deferred under Canadian GAAP, through opening retained earnings. The Company will apply this exemption to all defined benefit plans consistently and the expected impact has been quantified by the Company's external actuaries. The expected impact of IAS 19, "Employee Benefits" ("IAS 19"), including this IFRS 1 exemption is disclosed in the Changes in Accounting Policies – Employee Benefits section below.

Borrowing Costs The Company expects to apply IAS 23, "Borrowing Costs", prospectively and expects to eliminate all previously capitalized interest costs as at the date of transition through opening retained earnings. Upon implementation of IFRS, the Company expects to record a decrease in total assets and liabilities of approximately $220 million and $21 million, respectively, with a corresponding impact to opening retained earnings of $125 million and minority interest of $74 million. Minority interest is referred to as "non-controlling interest" under IFRS and is presented within total equity.

Foreign Currency The Company expects to apply the election whereby cumulative translation gains or losses in accumulated other comprehensive loss are deemed to be zero at the date of transition to IFRS. Upon implementation of IFRS, the Company expects to reclassify the cumulative translation loss of $103 million recorded in accumulated other comprehensive loss at December 31, 2009 to opening retained earnings. Cumulative translation gains and losses will be recognized prospectively from the date of transition.

Business Combinations The Company expects to apply IFRS 3, "Business Combinations" prospectively only to those business combinations that occur after the date of transition.

Changes in Accounting Policies
Consolidation IAS 27, "Consolidated and Separate Financial Statements" and Standing Interpretations Committee Interpretation 12, "Consolidation – Special Purpose Entities" ("IAS 27") assess consolidation based on the control model and IFRS does not include the concept of a variable interest entity. Accordingly, Loblaw will no longer be required to consolidate certain independent franchisees and other entities subject to warehouse and distribution service agreements that were previously consolidated under Canadian GAAP pursuant to the requirements of Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG 15"). The independent funding trust through which franchisees obtain financing and Eagle, the independent credit card trust that finances certain PC Bank credit card receivables, will be subject to consolidation under IFRS based on the indicators of control as assessed in accordance with Standing Interpretations Committee Interpretation 12. As a result of the above, Loblaw will be required to remeasure the initial consideration received from the independent franchisee, in the form of a loan receivable, to exclude the benefit of the credit enhancement provided to the independent funding trust by Loblaw. Upon implementation of IFRS, the Company expects to record an increase in total assets and liabilities of approximately $719 million and $739 million, respectively, with a corresponding impact to opening retained earnings of $7 million and non-controlling interest of $27 million, primarily resulting from the items described above. In addition, upon implementation the Company expects to record additional total assets and liabilities of $39 million and $117 million, respectively, with a corresponding impact to opening retained earnings of $49 million and non-controlling interest of $29 million related to immaterial adjustments of prior period balances. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

Revenue Under Canadian GAAP each franchise arrangement was evaluated under AcG 15. Revenues for independent franchisees that were not consolidated under AcG 15 were accounted for under AcG 2 "Franchise Fee Revenue". As a result of Loblaw no longer consolidating certain independent franchisees, Loblaw was required to evaluate the sale of each franchise arrangement under IAS 18, "Revenue" ("IAS 18") at its inception. Based on the guidance in IAS 18, Loblaw concluded that each franchise arrangement contains separately identifiable components. As a result of this multi-element arrangement, Loblaw will be required to determine the fair value of all consideration exchanged including certain loans and receivables. The impact of applying these requirements will result in the fair value of certain consideration being less than the amounts recorded at inception. Furthermore, Loblaw allocated the consideration to each component in the multi-element arrangement, on a relative fair value basis to both the delivered and undelivered components. The total impact of these items is included within the overall financial instruments impacts described below.

Financial Instruments As a result of no longer consolidating the franchise arrangements under IAS 27, Loblaw will recognize and evaluate additional financial assets and financial liabilities in accordance with IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") which requires application retrospectively to the inception of each arrangement. Loblaw's evaluation has identified one or more events that provide objective evidence that the cash flows associated with certain of these financial assets are such that the fair value has been determined to be impaired. Upon implementation of IFRS, the Company expects to record a decrease in certain financial assets and a corresponding decrease to total equity.

IAS 39 contains different criteria than Canadian GAAP for the derecognition of financial assets and requires an evaluation of the extent to which an entity retains the risks and rewards of ownership as well as control over the transferred assets. Under Canadian GAAP these financial assets qualify for sale treatment. The Company has determined that under IFRS, securitized credit card receivables will not qualify for derecognition. Upon implementation of IFRS, the Company expects to record an increase in credit card receivables of approximately $1,179 million, excluding Eagle of $500 million which is discussed above, before the provision for loan losses with a corresponding increase to liabilities.

Cross currency and interest rate swaps were effective cash flow hedging relationships under Canadian GAAP. Certain tranches of the swaps that were part of the hedging relationship have expired in 2010 and will continue to expire up to mid-2011. Loblaw has decided not to apply hedge accounting under IFRS which will result in derecognition at the date of transition to IFRS. Upon implementation of IFRS, the Company expects to reclassify approximately $10 million of deferred gains net of allocation of non-controlling interest, from accumulated other comprehensive income to retained earnings within total equity.

As a result of IAS 39 and IAS 18, the Company expects to record an increase in total assets and liabilities of approximately $958 million and $1,290 million, respectively, with a corresponding impact to opening retained earnings of $198 million, accumulated other comprehensive loss of $10 million and non-controlling interest of $124 million, primarily resulting from the items described in IAS 18 and IAS 39 above.

Employee Benefits IAS 19 provides a policy choice regarding recognition of actuarial gains and losses for defined benefit pension plans and other defined benefit plans, permitting deferred recognition using the corridor method or immediate recognition in either other comprehensive income within equity or through earnings. Under Canadian GAAP the Company applies the corridor method. Upon implementation of IFRS, the Company intends to recognize actuarial gains and losses immediately in other comprehensive income within equity for defined benefit pension plans and other defined benefit plans and immediately in net earnings for other long term employee benefits. Upon implementation of IFRS, the Company expects to record a decrease in total assets and an increase in total liabilities of approximately $266 million and $81 million, respectively, with a corresponding impact to opening retained earnings of $247 million and non-controlling interest of $100 million, primarily resulting from the items described above and the IFRS 1 exemption described in the First-Time Adoption of IFRS section above. In addition, upon implementation the Company expects to record additional total assets and liabilities of $14 million and $56 million, respectively, with a corresponding impact to opening retained earnings of $28 million and non-controlling interest of $14 million, related to immaterial adjustments of prior period balances. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

Share-based Payments IFRS 2, "Share-Based Payments", requires that cash-settled stock-based compensation be measured based on the fair value of the awards. Canadian GAAP requires that such compensation be measured based on the intrinsic value of the awards. This difference is expected to impact the accounting measurement of the Company's stock options, restricted share units and deferred share units. Upon implementation of IFRS, the Company expects to record an increase in total assets and liabilities of approximately $5 million and $15 million, respectively, with a corresponding impact to opening retained earnings of $8 million and non-controlling interest of $2 million, primarily resulting from the items described above.

Property, Plant and Equipment IAS 16, "Property, Plant and Equipment", provides specific guidance such that when an individual component of an item within property, plant and equipment is replaced and capitalized, the carrying value of the replaced component of the original asset must be derecognized even if the replacement part was not separately accounted for. In addition IFRS is more prescriptive with respect to eligible costs such as site-dismantling and restoration costs. Upon implementation of IFRS, the Company expects to record a decrease in total assets and liabilities of approximately $74 million and $3 million, respectively, with a corresponding impact to opening retained earnings of $49 million and non-controlling interest of $22 million, primarily resulting from the items described above.

Impairment of Assets IAS 36, "Impairment of Assets", requires that assets be tested for impairment at the level of cash generating units ("CGU"), which are defined as the smallest group of assets that generate largely independent cash inflows. The Company has completed its analysis and has concluded that the CGU for Weston Foods will be at a lower level than under Canadian GAAP but will continue to be the major production categories and geographic regions where cash inflows are largely depending on each other. For Loblaw, the CGU will predominantly be an individual retail location compared to Canadian GAAP where store net cash flows are grouped together by primary market areas, where they are largely dependent on each other. The Company has completed its preliminary assessment of the events triggering potential impairments and the events triggering the reversal of previously recorded impairments. Upon implementation of IFRS, the Company expects to record a decrease in total assets and liabilities of approximately $216 million and $29 million, respectively, with a corresponding impact to opening retained earnings of $117 million and non-controlling interest of $70 million, primarily resulting from the items described above.

Leases IAS 17, "Leases" ("IAS 17") requires the allocation of minimum lease payments between the land and building elements of a lease to be in proportion to the relative fair values of the leasehold interests in the land and building, whereas under Canadian GAAP it is based on the fair value of the land and building in aggregate. In addition, IFRS permits the immediate recognition of gains and losses on sale leaseback transactions which result in an operating lease, provided that the transaction is established at fair value. Under Canadian GAAP, gains and losses are generally deferred and amortized in proportion to the lease payments over the lease term. IAS 17 also provides additional indicators of a capital lease that were not provided under Canadian GAAP. Capital leases are referred to as finance leases under IFRS. Upon implementation of IFRS, the Company expects to record an increase in total assets and liabilities of approximately $62 million and $70 million, respectively, with a corresponding impact to opening retained earnings of $2 million and non-controlling interest of $6 million, primarily resulting from the items described above. In addition, upon implementation the Company expects to record additional total assets and liabilities of $50 million and $61 million, respectively, with a corresponding impact to opening retained earnings of $7 million and non-controlling interest of $4 million, related to immaterial unrecorded capital leases from prior periods. The Company has determined that these immaterial unrecorded amounts were not material to its consolidated financial statements for any prior interim or annual periods.

Customer Loyalty Programs International Financial Reporting Interpretations Committee 13, "Customer Loyalty Programs", requires the fair value of loyalty programs to be recognized as a separate component of the related sales transaction, such that a portion of the revenue from the initial sales transaction in which the awards were granted is deferred until the points are redeemed. Loblaw has made a policy choice to defer the relevant portion of the sales transaction based on the relative fair value of the awards granted. Under Canadian GAAP, Loblaw recognizes the net cost of the program in operating expenses measured at the cost to service the liability. Upon implementation of IFRS, the Company expects to record an increase in total assets and liabilities of approximately $5 million and $19 million, respectively, with a corresponding impact to opening retained earnings of $9 million and non-controlling interest of $5 million, primarily resulting from the items described above.

Provisions IAS 37, "Provision, Contingent Liabilities and Contingent Assets" requires an entity to recognize a provision when a contract is determined to be onerous. A contract is onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Canadian GAAP only requires the recognition of such a liability in certain prescribed situations. This difference could result in the recognition of a liability under IFRS that was not previously recognized under Canadian GAAP. Other measurement differences under IFRS could result in the earlier recognition of provisions or the recognition of a different amount than under Canadian GAAP. Upon implementation of IFRS, the Company expects to record an increase in total assets and liabilities of approximately $3 million and $19 million, respectively, with a corresponding impact to opening retained earnings of $9 million and non-controlling interest of $7 million, primarily resulting from the items described above.

Changes in Financial Statement Presentation and Cash Flows

In addition to the changes in recognition and measurement described above, the conversion to IFRS will result in a number of changes to financial statement presentation. On the consolidated balance sheets, the significant required reclassifications from Canadian GAAP to IFRS include: presenting all future income taxes as long term, rather than presenting current and long term future income taxes separately; presenting investment properties separately from fixed assets; presenting current and long term provisions separately from accounts payable and accrued liabilities and other liabilities, respectively; and presenting non-controlling interest as a component of equity instead of as a liability.

On the statement of earnings, non-controlling interests will be presented as an allocation of net earnings rather than as a deduction in the calculation of net earnings. In addition, the Company has made a policy choice under IAS 19 to disaggregate pension and post retirement benefit costs on the statement of net earnings, and present the interest and expected return on asset components within interest and other financing charges. This change related to pension costs will have the effect of increasing operating income and EBITDA[1] and increasing interest and other financing charges reported under Canadian GAAP in 2010.

The impact of IFRS on total consolidated cash flows is due only to the change in entities that Loblaw will recognize on-balance sheet under IFRS as compared to Canadian GAAP, as discussed above related to IAS 39 and IAS 27. In addition, within the consolidated statements of cash flows, there will be differences in the presentation of cash flows between operating, investing and financing.

(1) See non-GAAP financial measures beginning on page 61.

17. OUTLOOK[1]

The consolidated results of George Weston Limited will continue to reflect the performance of both the Weston Foods and Loblaw operating businesses. In addition, the Company's results will be subject to earnings volatility caused by the impact of changes in U.S. foreign currency exchange rates on a portion of the Company's U.S. dollar denominated cash and short term investments. Earnings volatility may also result from other non-operating factors including commodity prices and their impact on the Company's commodity derivatives, the Loblaw common share price and its impact on the forward sale agreement for 9.6 Loblaw common shares and short term interest rates.

In 2011, Weston Foods expects continued progress in operating performance driven by sales growth in existing businesses, the full year impact of the 2010 bakery acquisitions and ongoing efforts to reduce costs through improved efficiencies and productivity. This outlook is tempered by the impact of rapidly rising commodity costs and escalating energy costs. While Weston Foods is planning to increase prices to absorb these cost increases, operating margins could be constrained in 2011 as the timing of price increases may lag cost increases.

Loblaw is entering its fifth and final year of renewal and expects to continue its focus on executing the renewal plan in a market environment that remains unpredictable and competitively intense. Loblaw plans to increase its investments in information technology and supply chain which will negatively impact operating income in 2011.

George Weston Limited continues to assess opportunities for the deployment of its significant holdings of cash and short term investments.

18. NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures: EBITDA and EBITDA margin, net debt, net debt to EBITDA, net debt to equity and return on average net assets. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below. These measures do not have a standardized meaning prescribed by Canadian GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with Canadian GAAP.

(1) This outlook should be read in conjunction with the Forward-Looking Statements section of this MD&A on page 5.

EBITDA and EBITDA margin

The following tables reconcile earnings from continuing operations before minority interest, income taxes, interest expense and other financing charges, gain on disposal of business and depreciation and amortization ("EBITDA") to Canadian GAAP net earnings from continuing operations reported in the consolidated statements of earnings for the quarters and years ended as indicated. For each of its reportable operating segments, segment EBITDA is reconciled to segment operating income.

EBITDA margin is calculated as EBITDA divided by sales.

EBITDA is useful to management in assessing the performance of the Company's ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

	Quarter Ended Dec. 31, 2010				Year Ended Dec. 31, 2010			
($ millions)	Weston Foods	Loblaw	Other[(2)]	Consolidated	Weston Foods	Loblaw	Other[(2)]	Consolidated
Net earnings from continuing operations				$ 101				$ 452
Add impact of the following:								
Minority interest				61				273
Income taxes				101				370
Interest expense and other financing charges				67				388
Operating income (loss)	$ 55	$ 287	$ (12)	$ 330	$ 278	$ 1,261	$ (56)	$ 1,483
Depreciation and amortization[(1)]	14	153		167	54	655		709
EBITDA	$ 69	$ 440	$ (12)	$ 497	$ 332	$ 1,916	$ (56)	$ 2,192

(1) Includes depreciation of $11 million and $43 million for the quarter and the year, respectively, presented in cost of inventories sold.

(2) Operating income for the quarter and the year includes a loss of $12 million and $56 million, respectively, related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates, which are integrated foreign subsidiaries for accounting purposes.

($ millions)	Quarter Ended Dec. 31, 2009 Weston Foods	Loblaw	Other[2]	Consolidated	Year Ended Dec. 31, 2009 Weston Foods	Loblaw	Other[2]	Consolidated
Net earnings from continuing operations				$ 79				$ 127
Add impact of the following:								
Minority interest				70				260
Income taxes				39				259
Interest expense and other financing charges				99				363
Operating income (loss)	$ 58	$ 275	$ (46)	$ 287	$ 123	$ 1,197	$ (311)	$ 1,009
Depreciation and amortization[1]	12	143		155	56	589		645
EBITDA	$ 70	$ 418	$ (46)	$ 442	$ 179	$ 1,786	$ (311)	$ 1,654

(1) Includes depreciation of $10 million and $44 million for the quarter and the year, respectively, presented in cost of inventories sold.
(2) Operating income for the quarter and the year includes a gain of $6 million and a loss of $225 million, respectively, related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates, which are integrated foreign subsidiaries for accounting purposes. Operating income for the quarter and the year also includes a loss of $52 million and $86 million, respectively, related to the reversal of cumulative foreign currency translation losses.

($ millions)	Year Ended Dec. 31, 2008 Weston Foods	Loblaw	Consolidated
Net earnings from continuing operations			$ 647
Add impact of the following:			
Minority interest			222
Income taxes			304
Interest expense and other financing charges			360
Gain on disposal of business			(335)
Operating income	$ 154	$ 1,044	$ 1,198
Depreciation and amortization[1]	60	550	610
EBITDA	$ 214	$ 1,594	$ 1,808

(1) Includes depreciation of $44 million presented in cost of inventories sold.

Net Debt

The following table reconciles net debt used in the net debt to EBITDA and net debt to equity ratios to Canadian GAAP measures reported as at the years ended as indicated.

The Company calculates net debt as the sum of bank indebtedness, short term debt, long term debt, certain other liabilities and the fair value of the related financial derivatives less cash and cash equivalents, short term investments, security deposits and the fair value of the related financial derivatives.

The Company believes this measure is useful in assessing the amount of financial leverage employed.

($ millions)	**Dec. 31, 2010**	Dec. 31, 2009	Dec. 31, 2008
Bank indebtedness	**$ 4**	$ 2	$ 93
Short term debt	**336**	300	453
Long term debt due within one year	**733**	343	415
Long term debt	**5,129**	5,377	5,308
Certain other liabilities	**35**	36	
Fair value of financial derivatives related to the above	**(352)**	(327)	(261)
	5,885	5,731	6,008
Less: Cash and cash equivalents	**1,528**	1,535	621
Short term investments	**3,234**	3,371	1,519
Security deposits	**435**	348	560
Fair value of financial derivatives related to the above	**187**	178	57
	5,384	5,432	2,757
Net debt	**$ 501**	$ 299	$ 3,251

Capital securities are excluded from the calculation of net debt. For the purpose of calculating net debt, fair values of financial derivatives are not credit value adjusted in accordance with EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC 173"). As at the end of 2010, the credit value adjustment was $4 million (2009 – $4 million).

Net Assets

The following table reconciles net assets used in the return on average net assets ratio to Canadian GAAP measures reported on the consolidated balance sheet as at the years ended as indicated.

Net assets is calculated as total assets less cash and cash equivalents, short term investments, security deposits, the fair value of Weston Holdings Limited's ("WHL"), a subsidiary of GWL, forward sale agreement for 9.6 million Loblaw common shares, assets of operations held for sale and accounts payable and accrued liabilities. Return on average net assets is calculated as operating income for the year divided by average net assets.

The Company believes the return on average net assets ratio is useful in assessing the return on productive assets.

				Dec. 31, 2010
($ millions)	**Weston Foods**	**Loblaw**	**Other[(1)]**	**Consolidated**
Canadian GAAP total assets	**$ 1,868**	**$ 16,091**	**$ 2,895**	**$ 20,854**
Less: Cash and cash equivalents	**157**	**932**	**439**	**1,528**
Short term investments	**43**	**735**	**2,456**	**3,234**
Security deposits	**81**	**354**		**435**
Fair value of WHL's forward sale agreement for 9.6 million Loblaw shares	**421**			**421**
Accounts payable and accrued liabilities[(2)]	**301**	**3,416**		**3,717**
Net assets	**$ 865**	**$ 10,654**	**$**	**$ 11,519**

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

(2) Excludes the accrual of $1.0 billion related to the special one-time common share dividend declared in the fourth quarter of 2010 and subsequently paid on January 25, 2011.

				Dec. 31, 2009
($ millions)	Weston Foods	Loblaw	Other[(1)]	Consolidated
Canadian GAAP total assets	$ 1,674	$ 15,151	$ 3,318	$ 20,143
Less: Cash and cash equivalents	165	776	594	1,535
Short term investments	33	614	2,724	3,371
Security deposits	98	250		348
Fair value of WHL's forward sale agreement for 9.6 million Loblaw shares	446			446
Accounts payable and accrued liabilities	337	3,279		3,616
Net assets	$ 595	$ 10,232	$	$ 10,827

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

($ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
				Dec. 31, 2008
Canadian GAAP total assets	$ 2,892	$ 14,083	$ 2,588	$ 19,563
Less: Cash and cash equivalents	378	243		621
Short term investments	1,009	510		1,519
Security deposits	123	437		560
Current assets of operations held for sale			2,588	2,588
Fair value of WHL's forward sale agreement for 9.6 million Loblaw shares	397			397
Accounts payable and accrued liabilities	298	2,823		3,121
Net assets	$ 687	$ 10,070	$	$ 10,757

Equity

The following table reconciles equity used in the net debt to equity ratio to Canadian GAAP measures reported in the audited consolidated financial statements as at the years ended as indicated.

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

($ millions)	**Dec. 31, 2010**	Dec. 31, 2009	Dec. 31, 2008
Capital securities			$ 264
Shareholders' equity	**$ 6,132**	$ 6,942	5,910
Equity	**$ 6,132**	$ 6,942	$ 6,174

19. ADDITIONAL INFORMATION

The following table provides additional financial information as at the years ended as indicated.

($ millions)	**Dec. 31, 2010**	Dec. 31, 2009	Dec. 31, 2008
Market price per common share ($)	**$ 84.20**	$ 66.92	$ 59.90
Actual common shares outstanding (in millions)	**129.1**	129.1	129.1
Weighted average common shares outstanding (in millions)	**129.1**	129.1	129.1

Additional information about the Company, including its Annual Information Form and other disclosure documents, has been filed electronically with the Canadian securities regulatory authorities in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

This Annual Report includes selected information on Loblaw Companies Limited, a 62.9%-owned public reporting subsidiary company with shares trading on the Toronto Stock Exchange. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw with the Canadian securities regulatory authorities from time to time. These filings are also available on Loblaw's corporate website at www.loblaw.ca.

Toronto, Canada

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