Management's Statement of Responsibility for Financial Reporting

The management of George Weston Limited is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements, Management's Discussion and Analysis and all other information in this Annual Report. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgments and estimates necessary to prepare the consolidated financial statements in accordance with Canadian generally accepted accounting principles. It also includes ensuring that the financial information presented elsewhere in this Annual Report is consistent with the consolidated financial statements.

To provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced, management maintains a system of internal controls reinforced by the Company's standards of conduct and ethics set out in written policies. Internal auditors, who are employees of the Company, review and evaluate internal controls on management's behalf, coordinating this work with the independent auditors. KPMG LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

The Board of Directors, acting through an Audit Committee comprised solely of directors who are unrelated to and independent of the Company, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. The Audit Committee meets regularly with financial management, internal auditors and the independent auditors to discuss internal controls, auditing activities and financial reporting matters. The independent auditors and internal auditors have unrestricted access to the Audit Committee. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors for inclusion in this Annual Report based on the review and recommendation of the Audit Committee.

W. Galen Weston
Chairman and President

Richard P. Mavrinac
Chief Financial Officer

Toronto, Canada
March 11, 2004

Independent Auditors' Report

To the Shareholders of George Weston Limited:

We have audited the consolidated balance sheets of George Weston Limited as at December 31, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
March 11, 2004

Consolidated Statements of Earnings

For the years ended December 31
($ millions except where otherwise indicated)

	2003	2002
Sales	**$ 29,198**	$ 27,446
Operating Expenses		
Cost of sales, selling and administrative expenses	**26,780**	25,261
Depreciation	**546**	507
Restructuring and other charges (note 2)	**60**	
	27,386	25,768
Operating Income	**1,812**	1,678
Interest Expense (note 3)	**266**	238
Earnings Before the Following:	**1,546**	1,440
Income Taxes (note 6)		
Provision	**423**	469
Other	**7**	
	430	469
	1,116	971
Minority Interest	**324**	281
Net Earnings	**$ 792**	$ 690
Net Earnings per Common Share ($) (note 7)		
Basic	**$ 5.80**	$ 5.05
Diluted	**$ 5.78**	$ 5.02

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 31
($ millions except where otherwise indicated)

	2003	2002
Retained Earnings, Beginning of Year	**$ 3,712**	$ 3,260
Impact of implementing new accounting standard (note 1)		(55)
Net earnings	**792**	690
Premium on common shares purchased for cancellation (note 16)	**(273)**	(33)
Dividends declared		
Per common share – $1.20 (2002 – $.96)	**(158)**	(126)
Per preferred share – Series I – $1.45 (2002 – $1.49)	**(13)**	(14)
– Series II – $1.29 (2002 – $.93)	**(14)**	(10)
Retained Earnings, End of Year	**$ 4,046**	$ 3,712

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 31
($ millions)

	2003	2002
Assets		
Current Assets		
Cash and cash equivalents (note 8)	**$ 965**	$ 1,157
Short term investments	**545**	398
Accounts receivable (note 9)	**935**	950
Inventories	**2,049**	1,994
Future income taxes (note 6)	**152**	138
Prepaid expenses and other assets	**52**	48
Total Current Assets	**4,698**	4,685
Fixed Assets (note 10)	**7,743**	7,053
Goodwill and Intangible Assets (note 11)	**3,542**	3,988
Future Income Taxes (note 6)	**76**	49
Other Assets (note 12)	**1,279**	908
Total Assets	**$ 17,338**	$ 16,683
Liabilities		
Current Liabilities		
Bank indebtedness	**$ 108**	$ 61
Commercial paper	**696**	715
Accounts payable and accrued liabilities	**2,971**	3,344
Income taxes	**181**	164
Short term bank loans (note 14)	**67**	33
Long term debt due within one year (note 14)	**307**	110
Total Current Liabilities	**4,330**	4,427
Long Term Debt (note 14)	**5,832**	5,391
Future Income Taxes (note 6)	**230**	146
Other Liabilities (note 15)	**672**	748
Minority Interest	**1,812**	1,589
Total Liabilities	**12,876**	12,301
Shareholders' Equity		
Share Capital (note 16)	**608**	609
Retained Earnings	**4,046**	3,712
Cumulative Foreign Currency Translation Adjustment (note 19)	**(192)**	61
Total Shareholders' Equity	**4,462**	4,382
Total Liabilities and Shareholders' Equity	**$ 17,338**	$ 16,683

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

W. Galen Weston
Director

R. Donald Fullerton
Director

Consolidated Cash Flow Statements

For the years ended December 31
($ millions)

		2003	2002
Operating Activities			
Net earnings before minority interest		$ **1,116**	$ 971
Depreciation		**546**	507
Restructuring and other charges (note 2)		**60**	
Future income taxes		**85**	137
Change in non-cash working capital		**(417)**	(207)
Acquisition restructuring charges, including income tax recoveries		**(63)**	(107)
Other		**(44)**	39
Cash Flows from Operating Activities		**1,283**	1,340
Investing Activities			
Fixed asset purchases		**(1,509)**	(1,397)
Short term investments		**(199)**	128
Proceeds on termination of financial derivatives (note 18)		**338**	
Proceeds from fixed asset sales		**89**	69
Business dispositions (note 4)			960
Credit card receivables, after securitization (note 9)		**(16)**	(100)
Franchise investments and other receivables		**(47)**	(14)
Other		**(31)**	(2)
Cash Flows used in Investing Activities		**(1,375)**	(356)
Financing Activities			
Bank indebtedness		**63**	(91)
Commercial paper		**(19)**	249
Short term bank loans (note 14)	– Issued	**34**	33
	– Retired		(1,367)
Long term debt (note 14)	– Issued	**755**	600
	– Retired	**(104)**	(78)
Share capital (note 16)	– Issued	**1**	304
	– Retired	**(275)**	(33)
Subsidiary share capital	– Issued (note 17)	**2**	2
	– Retired (note 5)	**(76)**	(17)
Dividends	– To shareholders	**(178)**	(141)
	– To minority shareholders	**(63)**	(51)
Other		**(3)**	(4)
Cash Flows from (used in) Financing Activities		**137**	(594)
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents (note 8)		**(237)**	24
Change in Cash and Cash Equivalents		**(192)**	414
Cash and Cash Equivalents, Beginning of Year		**1,157**	743
Cash and Cash Equivalents, End of Year		$ **965**	$ 1,157

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2003
($ millions except where otherwise indicated)

1. Summary of Significant Accounting Policies

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

Basis of Consolidation

The consolidated financial statements include the accounts of George Weston Limited ("Weston") and its subsidiaries (collectively referred to as the "Company") with provision for minority interest. The Company's interest in the voting share capital of its subsidiaries is 100% except for Loblaw Companies Limited ("Loblaw"), which is 61.7% (2002 – 61.4%).

Fiscal Year

The Company's year end is December 31. Sales and related activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year with respect to sales and related activities is usually 52 weeks in duration but does include a 53rd week every five to six years. The year ended 2002 had 52 weeks of sales and related activities resulting in an effective year end of December 28, 2002 with respect to sales and related activities. The year ended 2003 had 53 weeks of sales and related activities resulting in an effective year end of January 3, 2004 with respect to sales and related activities. Accordingly, all references to fiscal year end in this Annual Report to Shareholders should be read subject to the foregoing.

Revenue Recognition

Weston Foods and Fisheries recognize sales upon delivery of their products to customers net of applicable reductions for discounts and allowances. Food Distribution recognizes sales from customers through corporate stores operated by Loblaw and sales to and service fees from its franchised stores, associated stores and independent account customers at the time the sale is made to its customers.

Earnings Per Share ("EPS")

Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock options with an exercise price below the average market price are exercised and the assumed proceeds are used to purchase Weston's common shares at the average market price during the year.

Cash, Cash Equivalents and Bank Indebtedness

Cash balances which the Company has the ability and intent to offset are used to reduce reported bank indebtedness. Cash equivalents are highly liquid investments with a maturity of 90 days or less.

Short Term Investments

Short term investments are carried at the lower of cost or quoted market value and consist primarily of United States government securities, commercial paper and bank deposits.

Credit Card Receivables

The Company, through President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw, has credit card receivables that are stated net of an allowance for credit losses. Credit card receivables are fully written off when payments are contractually 180 days in arrears or when the likelihood of collection is considered remote. Interest income on credit card receivables is recorded when billed to customers and is recognized in operating income.

Allowance for Credit Losses

PC Bank maintains a general allowance for credit losses which, in management's opinion, is adequate to absorb all credit-related losses in its credit card receivables portfolio, based upon a statistical analysis of past performance and management's judgment. The allowance for credit losses is deducted from the credit card receivables balance. The net credit loss experience for the year is recognized in operating income.

Securitization

PC Bank securitizes credit card receivables through the sale of a portion of the total interest in these receivables to an independent trust and does not exercise any control over the trust's management, administration or assets. When PC Bank sells credit card receivables in a securitization transaction, it has a retained interest in the securitized receivables represented by a cash reserve

account and the right to future cash flows after obligations to investors have been met. Although PC Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the trust. Any gain or loss on the sale of these receivables depends, in part, on the previous carrying amount of receivables involved in the securitization, allocated between the receivables sold and the retained interest, based on their relative fair values at the date of securitization. The fair values are determined using a financial model. Any gain or loss on sale is recognized in operating income at the time of the securitization. The carrying value of retained interests is periodically reviewed and when a decline in value is identified that is other than temporary, the carrying value is written down to fair value.

Inventories (principally finished products)

Retail store inventories are stated at the lower of cost and estimated net realizable value less normal gross profit margin. Other inventories are stated at the lower of cost and estimated net realizable value. Cost is determined substantially using the first-in, first-out method.

Fixed Assets

Fixed assets are recorded at cost including capitalized interest. Depreciation commences when the assets are put into use and is recognized principally on a straight-line basis to depreciate the cost of these assets over their estimated useful lives. Estimated useful lives range from 10 to 40 (2002 – 10 to 40) years for buildings and from 2 to 20 (2002 – 2 to 17) years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the applicable useful life and the term of the lease plus one renewal period to a maximum of 10 years.

Fixed assets are written down to their net recoverable amount when their estimated future cash flows are less than their net carrying value. A write-down is recognized in operating income.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of a business acquired over the fair value of the underlying net assets acquired at the date of acquisition. Other intangible assets are recorded at fair value at the date of acquisition.

Goodwill is not amortized and its carrying value is tested at least annually for impairment. Intangible assets with a finite life are amortized over their estimated useful life. Intangible assets with an indefinite life are not subject to amortization and are tested at least annually for impairment. Any impairment in the carrying value of goodwill or intangible assets is recognized in operating income.

Foreign Currency Translation

(i) Self-Sustaining Foreign Operations

Assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each year end date. The resulting exchange gains or losses on translation are recognized as part of shareholders' equity in cumulative foreign currency translation adjustment. When there is a reduction in the Company's net investment in self-sustaining foreign operations, the proportionate amount of cumulative foreign currency translation adjustment is recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the year.

(ii) Loblaw Foreign Operations

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each year end date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the year.

Derivative Instruments

The Company uses derivative agreements in the form of cross currency basis swaps, interest rate swaps, equity swaps and forwards, and commodity futures and options to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates, interest rates, the market prices of Weston and Loblaw common shares and commodity prices. The Company does not enter into derivative agreements for trading or speculative purposes.

Currency forwards and options are identified as a hedge of commitments or anticipated transactions and realized gains and losses are recorded in the cost of the underlying hedged item. Unrealized gains and losses on currency forwards and options are not recognized.

Cross currency basis swaps are identified as a hedge against foreign currency exchange rate fluctuations on the Company's United States dollar denominated net investment in self-sustaining foreign operations, with realized and unrealized foreign currency exchange rate adjustments on cross currency basis swaps recognized as part of shareholders' equity in cumulative foreign currency translation adjustment. When there is a reduction in the Company's net investment in self-sustaining foreign operations, the proportionate amount of the cumulative foreign currency translation adjustment related to cross currency basis swaps gains or losses is recognized in operating income. The exchange of interest payments on Weston's cross currency basis swaps is recognized on an accrual basis in interest expense.

Interest rate swaps are identified as a hedge against interest rate fluctuations because they offset the interest rate exposure on the underlying hedged items. The exchange of interest payments on the interest rate swaps is recognized on an accrual basis in interest expense and unrealized gains and losses are not recognized. On termination of a hedging relationship, realized and unrealized gains and losses on interest rate swaps are recognized in interest expense.

Loblaw enters into cross currency basis swaps and interest rate swaps as a hedge against its exposure to fluctuations in foreign currency exchange rates and interest rates on a portion of its United States dollar denominated assets, principally cash, cash equivalents and short term investments. Realized and unrealized foreign currency exchange rate adjustments on Loblaw's cross currency basis swaps are offset by realized and unrealized foreign currency exchange rate adjustments on a portion of its United States dollar denominated assets and are recognized in operating income. The cumulative unrealized foreign currency exchange rate receivable or payable is recorded in other assets or other liabilities, respectively. The exchange of interest payments on Loblaw's cross currency basis swaps and interest rate swaps is recognized on an accrual basis in interest expense. Unrealized gains or losses on the interest rate swaps are not recognized.

Equity forwards and swaps are used to manage exposure to fluctuations in the market prices of Weston and Loblaw common shares, which impacts the stock-based compensation cost recognized. Market price adjustments on these equity forwards and swaps are recognized in operating income as gains or losses and the cumulative unrealized gains or losses are recorded in other assets or other liabilities, respectively. Interest on equity forwards and swaps is recognized on an accrual basis in interest expense. Market price adjustments on an equity forward that is identified as a hedge of an anticipated transaction is deferred in other assets and the cumulative unrealized market price payable is recorded in other liabilities.

Commodity futures and options are identified as a hedge of anticipated transactions. Unrealized and realized gains and losses on commodity futures and options are deferred in current assets or liabilities and are recognized in cost of sales when the inventory produced from the related commodity is sold.

The Company entered into an electricity forward contract to minimize price volatility and to maintain a portion of the Company's electricity costs in Ontario, Canada at approximately 2001 rates. This contract is identified as a hedge of an anticipated transaction as it partially offsets the volatility in the price of electricity.

Income Taxes

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

Pension, Post-Retirement and Post-Employment Benefits

The cost of the Company's defined benefit pension plans, post-retirement and post-employment benefits is accrued based on actuarial valuations, which are determined using the projected benefit method pro-rated on service and management's best estimate of the expected long term rate of return on plan assets, salary escalation, retirement ages and expected growth rate of health care costs.

Market values are used to value benefit plan assets. The obligation related to employee future benefits is measured using current market interest rates, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation. Past service costs from plan amendments and the excess net actuarial gain or loss over 10% of the greater of the accrued benefit plan obligation and the market value of the benefit plan assets are amortized on a straight-line basis over the average remaining service period of the active employees, ranging from 4 to 17 years, with a weighted average of 13 years at year end. The cost of pension benefits for defined contribution plans and multi-employer pension plans are expensed as contributions are paid.

Stock-Based Compensation

Effective January 1, 2003, the Company elected early adoption, on a prospective basis, of the amended standard issued by the Canadian Institute of Chartered Accountants ("CICA") on stock-based compensation and other stock-based payments. The standard was implemented for all stock option grants that will be settled by issuing common shares, which are measured on the grant date using a fair value model and expensed over the vesting period. There was no impact on the consolidated financial statements upon implementation.

The Company recognizes in operating income a compensation cost and a liability related to employee stock option grants that will be settled by issuing common shares. The compensation cost is the fair value of the stock option on grant date using an option pricing model. On the exercise of this type of stock option, the consideration paid by the employee and the related fair value accrual is credited to common share capital. Each stock option granted before 2003 that will be settled by issuing common shares will be accounted for as a capital transaction and no compensation cost is recognized. Consideration paid by employees on the exercise of this type of stock option is credited to common share capital.

Effective January 1, 2002, the Company implemented the CICA standard on stock-based compensation and other stock-based payments. The standard was implemented retroactively without restatement of the prior period consolidated financial statements for stock options outstanding at January 1, 2002 that allow for settlement in cash at the option of the employee. The cumulative effect of implementation was a decrease to retained earnings of $55 ($125 less $28 of future income tax recoverable, the $32 fair value impact of Loblaw's equity forwards and a $10 minority interest impact). This decrease includes the Company's portion of the decrease to Loblaw's retained earnings of $25 ($80 less $23 of future income tax recoverable and the $32 fair value impact of its equity forwards).

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

Outside members of Weston's and Loblaw's Boards of Directors may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of deferred share units. The deferred share units obligation is accounted for using the intrinsic value method and the year-over-year change in the deferred share units obligation is recognized as a compensation expense in operating income and as a liability.

Weston and Loblaw maintain Employee Share Ownership Plans for their employees, which allow employees to acquire Weston's and Loblaw's common shares through payroll deductions of up to 5% of their gross regular earnings. Loblaw contributes an additional 15% of each employee's contribution to its plan, and effective April 6, 2003 Weston amended its plan and will now contribute an additional 15% of each employee's contribution to the plan. These contributions are recognized in operating income as a compensation cost when the contribution is made.

Use of Estimates and Assumptions

The preparation of the consolidated financial statements in conformity 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. 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.

Comparative Information

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

Notes to the Consolidated Financial Statements

2. Restructuring and Other Charges

Weston Foods

In 2003, Weston Foods recognized in operating income a net pre-tax charge of $35 relating to the closure of two bakery facilities in Canada and the rationalization of fresh bakery production lines in the United States. This charge consisted of $41 of fixed asset write-downs and $14 of related employee severance costs offset by $20 recognized due to the completion of other restructuring activities for amounts less than previously recognized in the financial statements. Approximately $2 of the severance charge had been paid by the end of 2003. This restructuring is expected to be substantially completed by the end of 2004.

Food Distribution

As a result of union negotiations at Loblaw, certain employees of Locals 1000A, 1977 and 175 of the United Food and Commercial Workers union in Ontario became eligible to receive a voluntary early retirement offer. Employees of Locals 1000A and 1977 were required to indicate their acceptance of this voluntary offer in writing by October 31, 2003 and employees of Local 175 had to respond by January 31, 2004. At year end, 541 employees had accepted the voluntary early retirement offer which resulted in a pre-tax charge of $25 recognized in operating income. Approximately $5 of this charge had been paid by the end of 2003. The remaining accrual is expected to be paid during the first half of fiscal 2004. Subsequent to year end, an additional 94 employees of Local 175 had accepted the voluntary early retirement offer. Therefore, an additional charge of $2 will be recognized in operating income in fiscal 2004.

3. Interest Expense

	2003	2002
Interest on long term debt	$ 397	$ 363
Other long term interest (note 18)	(104)	(77)
Net long term interest	293	286
Net short term interest	6	(18)
Capitalized to fixed assets	(33)	(30)
Interest expense	$ 266	$ 238

Net interest paid in 2003 was $300 (2002 – $294).

4. Business Dispositions

During 2002, Weston sold the western portion of Bestfoods Baking ("BF West"), which included certain licensing and distribution arrangements, to Grupo Bimbo, S.A. de C.V. for cash proceeds of approximately $950 (U.S. $610). This disposition and BF West's net earnings, including the interest on the unsecured short term credit facility attributable to BF West, were recorded as part of the George Weston Bakeries Inc. ("George Weston Bakeries") purchase equation.

5. Business Acquisitions

Weston Foods

During 2003, Weston Foods acquired a specialty bakery for $6, which resulted in the Company recognizing $2 of goodwill.

Food Distribution

When Loblaw purchases its own common shares, the Company accounts for the purchase as a step-by-step purchase of Loblaw. During 2003, Loblaw purchased 1,282,900 (2002 – 309,000) of its common shares for $76 (2002 – $17) pursuant to its Normal Course Issuer Bids ("NCIB"), which resulted in the Company recognizing $34 (2002 – $8) of goodwill (note 11).

Subsequent to year end, Loblaw purchased 132,400 of its common shares for $8 pursuant to its NCIB.

In the normal course of business, Loblaw acquires franchisee stores and converts them to corporate stores. In 2003, Loblaw acquired 15 franchisee businesses. The acquisitions were accounted for using the purchase method of accounting with the results of the businesses acquired included in the Company's consolidated financial statements from the date of acquisition. The fair value of the net assets acquired consisted of fixed assets of $7, other assets, principally inventory, of $6 and goodwill of $8 for cash consideration of $11, net of the accounts receivable due from the franchisees of $10.

6. Income Taxes

The Company's effective income tax rate in the consolidated statements of earnings is reported at a rate less than the weighted average basic Canadian federal and provincial statutory income tax rate for the following reasons:

	2003	2002
Weighted average basic Canadian federal and provincial statutory income tax rate	**36.7%**	39.2%
Net decrease resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(6.7)**	(5.7)
Non-taxable amounts (including capital gains/losses and dividends)	**(.9)**	(1.3)
Large corporation tax	**.5**	.5
Enacted changes in income tax rates	**.4**	
Other		(.1)
Effective income tax rate before the following:	**30.0**	32.6
Reversal of income tax accrual (1)	**(2.2)**	
Effective income tax rate	**27.8%**	32.6%

(1) In 2003, Weston recognized a $34 reduction to the income tax provision as the result of a favourable resolution of an income tax issue, previously accrued for by Weston, which related to the disposition of Weston's forest products business in 1998.

Net income taxes paid in 2003 were $400 (2002 – $310).

In 2003, the Ontario government enacted both the repeal of income tax rate reductions of 1.5% scheduled for each of 2004, 2005 and 2006 and the increase in the provincial income tax rate to 14% in 2004 from 12.5% in 2003. Therefore, future income tax balances were adjusted resulting in a $7 charge to future income tax expense in 2003.

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

	2003	2002
Accounts payable and accrued liabilities	**$ 204**	$ 276
Other liabilities	**148**	118
Losses carried forward (expiring 2004 to 2023)	**156**	115
Other	**27**	47
Valuation allowances	**(97)**	(182)
Fixed assets	**(279)**	(234)
Goodwill	**(44)**	(33)
Intangible assets and other	**(117)**	(66)
Net future income tax (liabilities) assets	**$ (2)**	$ 41

	2003	2002
Presented on the consolidated balance sheets as:		
Future income tax assets		
Current	**$ 152**	$ 138
Non-current	**76**	49
	228	187
Future income tax liabilities	**(230)**	(146)
Net future income tax (liabilities) assets	**$ (2)**	$ 41

Notes to the Consolidated Financial Statements

7. Basic and Diluted Net Earnings per Common Share

	2003	2002
Net earnings	$ 792	$ 690
Prescribed dividends on preferred shares	(27)	(24)
Net earnings available to common shareholders	$ 765	$ 666
Weighted average common shares outstanding (in millions)	131.9	131.9
Dilutive effect of stock-based compensation (in millions) (1)	.4	.7
Diluted weighted average common shares outstanding (in millions)	132.3	132.6
Basic net earnings per common share ($)	$ 5.80	$ 5.05
Dilutive effect of stock-based compensation per common share ($)	(.02)	(.03)
Diluted net earnings per common share ($)	$ 5.78	$ 5.02

(1) 204,000 stock options at an exercise price of $100.00 per common share were outstanding at the end of 2003 but were not recognized in the computation of diluted net earnings per common share because the options' exercise price was greater than the average market price of the common shares for the year.

8. Cash, Cash Equivalents and Short Term Investments

At year end, the Company had $1.5 billion (2002 – $1.5 billion) in cash, cash equivalents and short term investments held or managed by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw in Barbados. The $20 (2002 – $31) of income from cash, cash equivalents and short term investments was recognized in net short term interest.

The Company recognized an unrealized foreign currency exchange rate loss of $237 (2002 – gain of $24) as a result of translating its United States dollar denominated cash and cash equivalents. The portion of this change which related to Loblaw's United States dollar denominated cash and cash equivalents amounts to $175 (2002 – gain of $19) and is offset in operating income by the unrealized foreign currency exchange rate gain on Loblaw's cross currency basis swaps. A cumulative unrealized foreign currency exchange rate receivable of $96 (2002 – $131 payable) related to Loblaw's cross currency basis swaps is recorded in other assets on the balance sheet. The remaining foreign currency exchange rate loss of $62 (2002 – gain of $5) relates to the translation of cash and cash equivalents held by Weston's self-sustaining foreign operations, which is recognized as part of shareholders' equity in cumulative foreign currency translation adjustment.

9. Credit Card Receivables

During 2003, Loblaw, through PC Bank, securitized $202 (2002 – $244) of credit card receivables, yielding a minimal loss (2002 – minimal gain) on the initial sale, inclusive of a $2 (2002 – $2) servicing liability. Servicing liabilities expensed during the year were $9 (2002 – $4) and the fair value of recognized servicing liabilities was $6 (2002 – $4). The trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported by Loblaw through a standby letter of credit for 15% of the securitized amount.

	2003	2002
Credit card receivables	$ 711	$ 502
Amount securitized	(558)	(356)
Net credit card receivables	$ 153	$ 146
Net credit loss experience	$ 9	$ 6

The following table shows the key economic assumptions used in measuring the retained interests at the date of securitization for securitizations completed in 2003. The table also displays the sensitivity of the current fair value of retained interests to an immediate 10% and 20% adverse change in the 2003 key economic assumptions.

	2003	Change in Assumptions (10%)	Change in Assumptions (20%)
Carrying value of retained interests	$ 9		
Payment rate (monthly)	45.0%		
Weighted average life (years)	.6		
Expected credit losses (annual)	3.4%	$ (.3)	$ (.7)
Discounted residual cash flows (annual)	14.0%	$ (1.2)	$ (2.4)

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

	2003	2002
Proceeds from new securitizations	$ 202	$ 244
Net cash flows received on retained interests	$ 53	$ 24

10. Fixed Assets

	2003			2002		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	$ 433		$ 433	$ 336		$ 336
Properties under development	248		248	234		234
Land	1,479		1,479	1,307		1,307
Buildings	3,878	$ 766	3,112	3,406	$ 681	2,725
Equipment and fixtures	4,441	2,382	2,059	4,210	2,158	2,052
Leasehold improvements	679	279	400	629	247	382
	11,158	3,427	7,731	10,122	3,086	7,036
Capital leases – buildings and equipment	86	74	12	87	70	17
	$ 11,244	$ 3,501	$ 7,743	$ 10,209	$ 3,156	$ 7,053

Notes to the Consolidated Financial Statements

11. Goodwill and Intangible Assets

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

				2003	2002
	Weston Foods	Food Distribution	Fisheries	Total	Total
Goodwill, beginning of year	$ 1,656	$ 1,682	$ 9	$ 3,347	$ 3,339
Goodwill acquired during the year	2	42		44	8
Adjusted purchase price allocation (1)	(125)			(125)	
Impact of foreign currency translation	(264)			(264)	
Goodwill, end of year	1,269	1,724	9	3,002	3,347
Trademarks and brand names (2)	523			523	627
Other intangible assets	2			2	
Marine site licenses			15	15	14
Goodwill and intangible assets	$ 1,794	$ 1,724	$ 24	$ 3,542	$ 3,988

(1) The adjusted purchase price allocation relates to the reversal of purchase accounting liabilities no longer required and the recognition of future income tax assets pertaining to the 2001 George Weston Bakeries acquisition.
(2) Year end 2003 balance includes the negative impact of foreign currency translation of $104.

The Weston Foods intangible assets primarily relate to $522 (2002 – $626) of trademarks and brand names, which have an indefinite useful life and, accordingly, are not being amortized.

The Fisheries intangible assets relate to marine site licenses, which have a limited life of 20 years and, accordingly, are being amortized over 20 years. The accumulated amortization on marine site licenses was minimal.

The Weston Foods, Food Distribution and Fisheries goodwill and the Weston Foods intangible assets with indefinite lives are tested annually for impairment. During the fourth quarter of 2003, the Company performed the annual goodwill and indefinite life intangible assets impairment tests and determined that there was no impairment to the carrying value of the goodwill or intangible assets.

12. Other Assets

	2003	2002
Domtar investment (note 14)	$ 367	$ 367
Franchise investments and other receivables	322	319
Equity forward deferred loss (note 18)	186	53
Accrued benefit plan asset (note 13)	103	47
Unrealized cross currency basis swaps receivable (note 18)	96	
Unrealized equity derivative receivable (note 18)	93	34
Deferred charges and other	112	88
	$ 1,279	$ 908

13. Pension, Post-Retirement and Post-Employment Benefits

The Company has a number of defined benefit and defined contribution plans providing pension and other retirement and post-employment benefits to certain employees. The Company also contributes to various multi-employer pension plans providing pension benefits.

Information about the Company's defined benefit plans, in aggregate, was as follows:

	2003		2002	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Benefit Plan Assets				
Fair value, beginning of year	**$ 1,048**	**$ 27**	$ 1,175	$ 18
Actual return on plan assets	**165**	**1**	(60)	4
Employer contributions	**135**	**28**	20	21
Employees' contributions	**4**		3	
Benefits paid	**(81)**	**(21)**	(90)	(16)
Other including impact of foreign currency translation	**(47)**			
Fair value, end of year	**$ 1,224**	**$ 35**	$ 1,048	$ 27
Accrued Benefit Plan Obligations				
Balance, beginning of year	**$ 1,440**	**$ 330**	$ 1,223	$ 229
Current service cost	**53**	**11**	43	7
Interest cost	**93**	**19**	93	16
Benefits paid	**(81)**	**(21)**	(90)	(16)
Actuarial loss	**84**	**75**	151	89
Plan amendments	**(4)**	**(54)**	14	1
Other including impact of foreign currency translation	**(76)**	**(27)**	6	4
Balance, end of year	**$ 1,509**	**$ 333**	$ 1,440	$ 330
Deficit of Plan Assets Versus Plan Obligations	**$ (285)**	**$ (298)**	$ (392)	$ (303)
Unamortized past service costs	**10**	**(47)**	19	1
Unamortized net actuarial loss	**290**	**137**	329	69
Net accrued benefit plan asset (liability)	**$ 15**	**$ (208)**	$ (44)	$ (233)
Accrued benefit plan asset included in other assets	**$ 84**	**$ 19**	$ 41	$ 6
Accrued benefit plan liability included in other liabilities	**(69)**	**(227)**	(85)	(239)
Net accrued benefit plan asset (liability)	**$ 15**	**$ (208)**	$ (44)	$ (233)

Notes to the Consolidated Financial Statements

At year end 2003, the deficit of plan assets versus plan obligations for those pension benefit plans and post-employment benefit plans where the accrued benefit plan obligations exceeded the fair value of benefit plan assets were $287 and $22, respectively (2002 – $396 and $26). There are no plan assets in non-registered pension plans. The Company's post-retirement benefit plans also had no plan assets and, at year end 2003, had an aggregate accrued benefit plan obligation of $278 (2002 – $278).

The significant annual weighted average actuarial assumptions used in measuring the Company's accrued benefit plan obligations as of the end of the year were as follows:

	2003		2002	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Discount rate	**6.3%**	**6.1%**	6.6%	6.4%
Rate of compensation increase	**3.5%**		3.6%	

The significant annual weighted average actuarial assumptions used in calculating the Company's net defined benefit plan expense for the year were as follows:

	2003		2002	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Discount rate	**6.6%**	**6.4%**	7.5%	7.3%
Expected long term rate of return on plan assets	**8.0%**	**5.0%**	8.0%	6.0%
Rate of compensation increase	**3.6%**		3.5%	

The Company's growth rate of health care costs, primarily drug costs, was estimated at 9.0% (2002 – 9.0%) and assumed to decrease gradually to 5.0% in 2011 and remain at that level thereafter.

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

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

	2003		2002	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Current service cost, net of employee contributions	**$ 49**	**$ 11**	$ 40	$ 7
Interest cost on plan obligations	**93**	**19**	93	16
Expected return on plan assets	**(81)**	**(1)**	(92)	(1)
Amortization of net actuarial loss	**16**	**(1)**		5
Other	**2**	**(1)**	3	
Net defined benefit plan expense	**79**	**27**	44	27
Defined contribution plan expense	**25**		27	
Multi-employer pension plan expense	**82**		79	
Net benefit plan expense	**$ 186**	**$ 27**	$ 150	$ 27

14. Long Term Debt

	2003	2002
George Weston Limited		
Debentures		
Series B, current rate 3.33%, due on demand (i)	**$ 67**	$ 33
Series A, 7.45%, due 2004 (v)	**200**	200
Series A, 7.00%, due 2031 (i)	**466**	466
Exchangeable Debentures, 3.00%, due 2023, redeemable in 2005 (ii)		
Carrying amount	**569**	567
Deferred amount	**(195)**	(193)
Notes		
5.25%, due 2006	**200**	200
5.90%, due 2009	**250**	250
6.45%, due 2011	**300**	300
12.70%, due 2030		
Principal	**150**	150
Effect of coupon repurchase	**(118)**	(121)
7.10%, due 2032	**150**	150
6.69%, due 2033 (iii)	**100**	
Other at a weighted average interest rate of 9.18%, due 2004 to 2033	**5**	6
Loblaw Companies Limited		
Notes		
6.60%, due 2003 (iii)		100
6.95%, due 2005	**200**	200
6.00%, due 2008	**390**	390
5.75%, due 2009	**125**	125
7.10%, due 2010	**300**	300
6.50%, due 2011	**350**	350
5.40%, due 2013 (iii)	**200**	
6.00%, due 2014	**100**	100
7.10%, due 2016	**300**	300
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**(11)**	(4)
6.85%, due 2032	**200**	200
6.54%, due 2033 (iii)	**200**	
8.75%, due 2033	**200**	200
6.05%, due 2034 (iii)	**200**	
6.45%, due 2039	**200**	200
7.00%, due 2040	**150**	150
5.86%, due 2043 (iii)	**55**	
Other at a weighted average interest rate of 10.64%, due 2004 to 2040	**43**	51
Provigo Inc.		
Debentures		
Series 1997, 6.35%, due 2004	**100**	100
Series 1996, 8.70%, due 2006	**125**	125
Other (iv)	**9**	13
Total long term debt	**6,206**	5,534
Less – amount due within one year	**(307)**	(110)
– amount due on demand	**(67)**	(33)
	$ 5,832	$ 5,391

The five-year schedule of repayment of long term debt based on maturity, excluding the Exchangeable Debentures and the amount due on demand, is as follows: 2004 – $307; 2005 – $217; 2006 – $329; 2007 – $6; 2008 – $393.

(i) During 2003, Weston issued $34 (2002 – $33) of Series B Debentures due on demand, which are at a current weighted average interest rate of 3.33%. The Series A, 7.00% and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

(ii) In 1998, Weston sold its Forest Products business to Domtar Inc. ("Domtar") for proceeds of $803, consisting of $435 of cash and $368 of Domtar common shares. The Domtar common share investment is recorded in other assets. Weston subsequently issued $375 of 3% Exchangeable Debentures ("Debentures") due June 30, 2023. Each one thousand dollar principal amount of the Debentures is exchangeable at the option of the holder for 95.2381 Domtar common shares. The Debentures are redeemable at the option of Weston after June 30, 2005. Upon notice of redemption by Weston or within 30 days prior to the maturity date, the holder has the option to exchange each one thousand dollar principal amount for 95.2381 Domtar common shares plus accrued interest payable in cash.

Weston's obligation on the exchange or redemption of these Debentures can be satisfied by delivery of a cash amount equivalent to the current market price of Domtar common shares at such time, the Domtar common shares or any combination thereof. Upon maturity, Weston at its option may deliver cash, the Domtar common shares or any combination thereof equal to the principal amount plus accrued interest.

The carrying amount of these Debentures is based on the market price of the underlying Domtar common shares at the reporting date. As a result of Weston issuing these Debentures, the Domtar investment is hedged and the difference between the carrying amount and the original issue amount of the Debentures is recorded as a deferred amount until exchange, redemption or maturity. No corresponding valuation adjustment is made to the investment.

(iii) During 2003, Weston issued $100 of 6.69% Medium Term Notes ("MTN") due 2033. Also during 2003, Loblaw issued $200 of 5.40% MTN due 2013, $200 of 6.54% MTN due 2033, $200 of 6.05% MTN due 2034 and $55 of 5.86% MTN due 2043. Loblaw also repaid its $100 of 6.60% MTN as it matured.

(iv) Other of $9 (2002 – $13) represents the unamortized portion of the adjustment to fair value the Provigo Inc. Debentures. This adjustment was recorded as part of the Provigo purchase equation and was calculated using Loblaw's average credit spread applicable to the remaining life of the Provigo Inc. Debentures. The adjustment is being amortized over the remaining term of the Provigo Inc. Debentures.

(v) Subsequent to year end, Weston issued $200 of 5.05% MTN due 2014 and repaid its $200 of Series A, 7.45% Debentures and Loblaw issued $200 of 6.15% MTN due 2035.

15. Other Liabilities

	2003	2002
Accrued benefit plan liability (note 13)	**$ 296**	$ 324
Unrealized cross currency basis swaps payable (note 18)		131
Accrued insurance liabilities	**100**	116
Stock-based compensation liability	**103**	83
Unrealized equity derivative liability (note 18)	**113**	35
Other	**60**	59
	$ 672	$ 748

16. Share Capital

	2003	2002
Common share capital	**$ 120**	$ 121
Preferred shares, Series I	**228**	228
Preferred shares, Series II	**260**	260
	$ 608	$ 609

Common Share Capital (authorized – unlimited)

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

		2003		2002
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	**132,279,822**	**$ 121**	131,467,907	$ 77
Issued for stock options exercised (note 17)	**18,812**	**1**	1,139,315	44
Purchased for cancellation	**(2,865,192)**	**(2)**	(327,400)	
Issued and outstanding, end of year	**129,433,442**	**$ 120**	132,279,822	$ 121
Weighted average outstanding	**131,888,902**		131,864,972	

Preferred Shares, Series I (authorized – unlimited) ($)

Weston has 9.4 million 5.80% Preferred Shares, Series I outstanding, which entitle the holder to a fixed cumulative preferred cash dividend of $1.45 per share per annum. Weston may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after December 15, 2006 at $26.00 per share
On or after December 15, 2007 at $25.75 per share
On or after December 15, 2008 at $25.50 per share
On or after December 15, 2009 at $25.25 per share
On or after December 15, 2010 at $25.00 per share

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

Preferred Shares, Series II (authorized – unlimited) ($)

During 2002, Weston issued 10.6 million 5.15% Preferred Shares, Series II for $25.00 per share for net proceeds of $260 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.2875 per share per annum. On or after April 1, 2009, Weston may, at its option, redeem for cash these outstanding preferred shares, in whole or in part, at $25.00 per share. On and after July 1, 2009, these outstanding preferred shares are convertible, at the option of the holder, into a number of Weston's common shares determined by dividing $25.00 by the greater of $2.00 and 95% of the then current market price of Weston's common shares. At any time after issuance, Weston may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston.

NCIB ($)

During 2003, Weston purchased for cancellation 852,100 (2002 – 327,400) of its common shares for $83 million (2002 – $33 million) and entered into equity swaps to buy 886,700 (2002 – 800,000) of its common shares pursuant to its NCIB. In addition, Weston intends to renew its NCIB to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its common shares outstanding. Weston, in accordance with the rules and by-laws of the Toronto Stock Exchange, may purchase its common shares at the then market price of such shares.

Also during 2003, Weston purchased for cancellation 2,013,092 of its common shares (representing approximately 1.5% of the Company's outstanding common shares) for $192 million pursuant to an offer received from Wittington Investments, Limited ("Wittington"), Weston's majority shareholder, thereby reducing Wittington's beneficial ownership to 62%. The weighted average purchase price of $95.58 per common share was equal to the lesser of 96% of the volume weighted average price of the Company's common shares for the last 20 business days and 96% of the volume weighted average closing price for the three business days immediately prior to the closing of the purchase, subject to the price not being less than $95 per common share.

Weston and its Board of Directors concluded that it was in the best interest of Weston to purchase its common shares and this transaction represented an opportunity to purchase a significant number of its common shares at a price below market price. This offer was reviewed and approved by an independent committee of directors established by Weston's Board of Directors. Weston obtained from the Ontario Securities Commission an exemption from the issuer bid rules in connection with this purchase.

Subsequent to year end, Weston purchased for cancellation 587,200 of its common shares for $59 million pursuant to its NCIB.

17. Stock-Based Compensation ($ except table)

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

Stock Option Plans

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

During 2003, Weston granted 685,129 stock options to 91 employees at an exercise price of $93.35 per common share under its existing stock option plan, which allows for settlement in cash at the option of the employee. Weston issued 18,812 common shares (2002 – 1,139,315) on the exercise of stock options for cash consideration of $.8 million (2002 – $44 million), for which it had recorded a nominal stock-based compensation liability. The share appreciation value of $14 million (2002 – $14 million) was paid on the exercise of 269,039 (2002 – 202,536) stock options. In addition, 32,702 stock options (2002 – 31,440) were forfeited or cancelled during 2003.

During 2002, Weston granted 226,000 stock options to 18 employees at an exercise price of $100.00 per common share, which will be settled by issuing common shares. In addition, 2,200 stock options (2002 – nil) were exercised and 19,800 (2002 – nil) were forfeited or cancelled during 2003.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 20.4 million of its common shares, however, Loblaw has set a guideline which limits the number of stock option grants to a maximum of 5% of outstanding common shares at any time. Stock options have up to a seven-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of Loblaw's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of Loblaw at the price specified in the terms of the option, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2003, Loblaw issued 93,200 (2002 – 75,000) common shares on the exercise of stock options for cash consideration of $2 million (2002 – $2 million), for which it had recorded a stock-based compensation liability of $4 million. The share appreciation value of $28 million (2002 – $22 million) was paid on the exercise of 802,701 (2002 – 685,447) stock options. In addition, 140,056 (2002 – 97,216) of Loblaw's stock options were forfeited or cancelled during 2003.

Share Appreciation Right Plan

Weston maintains a share appreciation right plan for certain senior United States employees. Share appreciation rights have up to a seven-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of Weston's common shares on the last trading day prior to the effective date of the grant. When they are exercised, the employee will receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified right price.

During 2003, Weston granted 252,285 share appreciation rights to 63 employees at an exercise price of $93.35 per common share under its existing share appreciation right plan, which will be settled in cash. As well, 4,000 share appreciation rights were forfeited or cancelled during 2003. No share appreciation rights were exercised.

During 2002, Weston granted 144,000 share appreciation rights, which will be settled in cash, to 48 employees at a weighted average exercise price of $100.00 per common share. As well, 3,000 share appreciation rights were forfeited or cancelled during 2003. No share appreciation rights were exercised.

Deferred Share Unit Plans

Outside members of Weston's and Loblaw's Boards of Directors may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of deferred share units, the value of which is determined by the market price of Weston's or Loblaw's common shares at the time of payment of the director's annual retainer(s) or fees. Upon termination of Board service, the common shares due to the director, as represented by the deferred share units, will be purchased on the open market on the director's behalf. At year end, Weston had 9,579 (2002 – 6,597) and Loblaw had 21,489 (2002 – 12,941) deferred share units outstanding.

Employee Share Ownership Plans ("ESOP")

Weston and Loblaw each maintain an ESOP for their employees, which allows employees to acquire Weston's and Loblaw's common shares through payroll deductions of up to 5% of their gross regular earnings. Loblaw contributes an additional 15% of each employee's contribution to its plan, and effective April 6, 2003 Weston amended its plan and now contributes an additional 15% of each employee's contribution. The ESOP is administered through a trust, which purchases Weston's and Loblaw's common shares on the open market on behalf of employees.

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

($ millions)	**2003**	2002
Stock-Based Compensation		
Stock option plans/share appreciation right plan cost	**$ 76**	$ 19
Equity derivatives (gain)/loss	**(87)**	13
	(11)	32
Deferred share unit plans	**1**	1
Employee share ownership plans	**2**	2
Net stock-based compensation cost	**$ (8)**	$ 35

Stock option and share appreciation right transactions were as follows:

	2003		2002	
	Options/ Rights (number of shares)	**Weighted Average Exercise Price/Share**	Options/ Rights (number of shares)	Weighted Average Exercise Price/Share
Outstanding options/rights, beginning of year	**1,417,233**	**$ 62.867**	2,420,524	$ 44.018
Granted	**937,414**	**$ 93.350**	370,000	$ 100.000
Exercised	**(290,051)**	**$ 45.259**	(1,341,851)	$ 39.418
Forfeited/cancelled	**(59,502)**	**$ 79.960**	(31,440)	$ 49.470
Outstanding options/rights, end of year (1)	**2,005,094**	**$ 79.158**	1,417,233	$ 62.867
Options/rights exercisable, end of year	**432,425**	**$ 55.201**	227,419	$ 47.531

(1) Options/rights outstanding, represented approximately 1.5% (2002 – 1.1%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%.

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

					2003
	Outstanding Options/Rights			Exercisable Options/Rights	
Range of Exercise Prices ($)	Number of Options/ Rights Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options/ Rights	Weighted Average Exercise Price/Share
$ 37.667 – $ 55.250	**608,392**	**2**	**$ 46.444**	**321,328**	**$ 43.240**
$ 63.500 – $ 100.000	**1,396,702**	**6**	**$ 93.409**	**111,097**	**$ 89.797**

18. Financial Instruments

A summary of Weston's and Loblaw's outstanding financial derivative instruments is as follows:

	Notional Amounts Maturing in							
	2004	2005	2006	2007	2008	Thereafter	**2003 Total**	2002 Total
Cross currency basis swaps	$ 331		$ 11	$ 68	$ 227	$ 577	**$ 1,214**	$ 4,025
Interest rate swaps	$ 357	$ 161	$ (43)		$ 240	$ 40	**$ 755**	$ 1,437
Equity derivatives					$ 92	$ 853	**$ 945**	$ 745
Electricity forward contract	$ 51	$ 17					**$ 68**	$ 115

Cross Currency Basis Swaps

During 2003, Weston terminated cross currency basis swaps which had exchanged $2.9 billion of Canadian dollars for United States dollars. Cash proceeds of $317 were received, which resulted from a realized foreign currency exchange rate gain of $336 ($275, net of tax) recognized in the cumulative foreign currency translation adjustment and a loss of $19 ($16, net of tax) recognized in interest expense. These cross currency basis swaps were identified as a hedge against foreign currency exchange rate fluctuations on Weston's United States dollar denominated net investment in self-sustaining foreign operations. At year end 2002, an unrealized foreign currency exchange rate loss of $68 was recognized in the cumulative foreign currency translation adjustment related to these cross currency basis swaps.

Loblaw entered into cross currency basis swaps to receive $1.2 billion (2002 – $1.1 billion) of Canadian dollars in exchange for United States dollars, which mature by 2016. Currency adjustments receivable or payable arising from these swaps may be settled in cash on maturity or the term may be extended. At year end, a cumulative unrealized foreign currency exchange rate receivable of $96 was recorded in other assets (2002 – $131 payable recorded in other liabilities).

Interest Rate Swaps

Weston entered into interest rate swaps converting a net notional $75 (2002 – $75) of its 6.7% (2002 – 6.7%) fixed rate debt into floating rate debt, which mature in 2004.

During 2003, Weston terminated interest rate swaps which had converted a notional $2.4 billion of Canadian floating interest rate exposure to receive a 5.1% fixed rate and a notional $1.6 billion (U.S. $1.2 billion) of United States floating interest rate exposure to pay a 4.5% fixed interest rate. The termination of these interest rate swaps resulted in cash proceeds and a gain of $21 ($13, net of tax) recognized in interest expense. These interest rate swaps were entered into to partially offset Weston's exposure to floating interest rates which resulted from the cross currency basis swaps that were also terminated during 2003.

Loblaw enters into interest rate swaps to hedge its exposure to fluctuations in interest rates on cash equivalents and short term investments. Loblaw entered into interest rate swaps converting a net notional $680 (2002 – $867) of its floating rate investments to fixed rate investments at 6.72% (2002 – 6.88%), which mature by 2013.

Equity Swaps and Forwards ($)
In 2003, Weston entered into equity swaps to buy 886,700 (2002 – 800,000) of its common shares at an average forward price of $92.49 (2002 – $115.01) per common share, with an average initial term of six years, bringing its cumulative outstanding equity swaps in its common shares to 1,686,700 (2002 – 800,000) at an average forward price of $103.17 (2002 – $115.01). In 2003, Loblaw entered into equity forwards to buy 1,103,500 (2002 – 390,100) of its common shares at an average forward price of $56.39 (2002 – $55.65) per common share, with an average initial term of 10 years (2002 – 10 years), bringing its cumulative outstanding equity forwards in its common shares to 4.8 million (2002 – 3.7 million) at an average forward price of $48.56 (2002 – $44.88) including $3.69 (2002 – $3.47) per common share of interest expense net of dividends that will be paid at redemption. These swaps and forwards allow for several methods of settlement including net cash settlement. They change in value as the market price of the underlying common shares changes and provide a partial offset to fluctuations in Weston's and Loblaw's stock-based compensation cost. Weston has included an unrealized market adjustment in other assets of $1 million (2002 – other liability of $20 million) relating to these swaps. Loblaw has included a cumulative unrealized market gain in other assets of $92 million (2002 – $34 million).

Weston entered into an equity forward sale agreement based on 9.6 million Loblaw common shares (the "underlying Loblaw common shares") at a current forward price of $56.05 (2002 – $52.43) per Loblaw common share, which increases over time at a rate of 7%. The forward matures in 2031 and will be settled in cash as follows: Weston will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of Weston under this forward is secured by the underlying Loblaw common shares. Weston entered into this forward to partially offset any repayment risk associated with its Series A, 7.00% and Series B Debentures. Further, the market value of the underlying Loblaw common shares exceeds the obligation of Weston under this forward and a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward upon termination or maturity. Accordingly, hedge accounting has been applied. At year end, Weston had an obligation under this forward of $113 million (2002 – $15 million), which was included in other liabilities, and a deferred loss of $186 million (2002 – $53 million), which was included in other assets.

Electricity Forward Contract
The Company entered into an electricity forward contract to minimize price volatility and to maintain a portion of the Company's electricity costs in Ontario, Canada at approximately 2001 rates. This electricity forward contract has an initial term of three years and expires in May 2005.

Counterparty Risk
The Company may be exposed to losses should any counterparty to its financial derivative agreements fail to fulfill its obligations. The Company has sought to minimize potential counterparty risk and losses by conducting transactions for its derivative agreements with counterparties that have at minimum a long term A credit rating, and by placing risk adjusted limits on its exposure to any single counterparty for its financial derivative agreements. The Company has internal policies, controls and reporting processes, which require ongoing assessment and corrective action, if necessary with respect to its derivative transactions. In addition, principal amounts on currency and equity derivatives are each netted by agreement and there is no exposure to loss of the original notional principal amounts on the interest rate derivatives.

Fair Value of Financial Instruments
The fair value of a financial instrument is the estimated amount that the Company would receive or pay to terminate the instrument agreement at the reporting date. The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

- The fair values of cash, cash equivalents, short term investments, accounts receivable, bank indebtedness, commercial paper, accounts payable, accrued liabilities and short term bank loans approximated their carrying values given their short term maturities.
- The fair value of long term debt issues was estimated based on the discounted cash flows of the debt at the Company's estimated incremental borrowing rates for debt of the same remaining maturities.
- The fair value of the Exchangeable Debentures was estimated based on their market price at the reporting date.
- The fair value of the cross currency basis swaps was estimated based on the market spot exchange rates and forward interest rates and approximated carrying value.

- The fair value of the interest rate swaps was estimated by discounting net cash flows of the swaps at market and forward interest rates for swaps of the same remaining maturities.
- The fair value of the equity swaps and forwards was estimated by multiplying the Company's and Loblaw's common shares outstanding under the swaps and forwards by the difference between the market price of the common shares and the average forward price of the outstanding swaps and forwards at year end.
- The fair value of the electricity forward contract was provided by the counterparty based on expected future electricity prices.

	2003		2002	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long term debt liability	**$ 6,206**	**$ 6,912**	$ 5,534	$ 6,193
Long term debt liability (excluding Exchangeable Debentures)	**$ 5,832**	**$ 6,343**	$ 5,160	$ 5,626
Interest rate swaps net asset		**$ 13**		$ 19
Equity swaps and forwards net liability	**$ (20)**	**$ (20)**	$ (1)	$ (1)
Electricity forward contract net asset		**$ 2**		$ 17

19. Cumulative Foreign Currency Translation Adjustment

In 2003, as a result of the significant strengthening of the Canadian dollar relative to the United States dollar, the change in the cumulative foreign currency translation adjustment decreased shareholders' equity by $253. This net change was due to the negative impact of translating the Company's U.S. net investment partially offset by the realized gain on the cross currency basis swaps terminated during the year that were previously used to hedge the U.S. net investment (see note 18).

20. Contingencies, Commitments and Guarantees

The Company is involved in and potentially subject to various claims and litigation arising out of the normal course and conduct of its business including product liability, labour and employment, environmental and tax. Although such matters cannot be predicted with certainty, management considers the Company's exposure to such claims and litigation, to the extent not provided for through insurance or otherwise, not to be material to these consolidated financial statements.

The Company is committed to various operating leases. Future minimum lease payments relating to these operating leases are as follows:

	Amounts Maturing in							
	2004	2005	2006	2007	2008	Thereafter to 2049	**2003 Total**	2002 Total
Operating lease payments	$ 204	$ 185	$ 164	$ 139	$ 119	$ 647	**$ 1,458**	$ 1,467
Expected sub-lease income	(41)	(39)	(35)	(31)	(24)	(40)	**(210)**	(266)
Net operating lease payments	$ 163	$ 146	$ 129	$ 108	$ 95	$ 607	**$ 1,248**	$ 1,201

At year end, the Company has committed approximately $419 with respect to capital investment projects such as the construction, expansion and renovation of buildings and the purchase of real property.

The Company establishes standby letters of credit used in connection with certain obligations mainly related to real estate transactions and benefit and insurance programs. The aggregate gross potential liability related to these standby letters of credit is approximately $272. Other standby letters of credit related to the financing program for Loblaw's franchisees and securitization of PC Bank's credit card receivables have been identified as guarantees and are discussed further in the Guarantees section below.

In connection with Loblaw's purchase of Provigo, Loblaw committed to support Quebec small business and farming communities as follows: for a period of seven years commencing in 1999, subject to business dispositions, the aggregate amount of goods and services purchased from Quebec suppliers in the normal course of business will not fall below that of 1998. Loblaw has fulfilled its commitment in each year from 1999 to and including 2003.

Guarantees

Effective January 1, 2003, the Company implemented Accounting Guideline 14, "Disclosure of Guarantees", issued by the CICA, which requires a guarantor to disclose in its notes to the consolidated financial statements significant information about guarantees it has provided. Under this guideline, a guarantee is defined as a contract or indemnification agreement, which requires the Company to make payments (cash, financial instruments, other assets, the Company's own shares or the provision of services) to a third party contingent on future events (a "Guarantee"). These payments are contingent on one of the following: (i) a change in an underlying interest rate, security price, commodity price, foreign exchange rate or other variable that is related to an asset, liability or an equity security of the guaranteed party, (ii) the failure of another entity to perform under an obligating agreement, or (iii) the failure of another party to pay its indebtedness when due. The disclosures are required even when the likelihood of the guarantor having to make any payment under the Guarantee is remote.

The Company has provided to third parties the following significant Guarantees:

Standby Letters of Credit

A standby letter of credit for the benefit of an independent trust with respect to the credit card receivables securitization program of PC Bank, a wholly owned subsidiary of Loblaw, has been provided by a major Canadian bank. This standby letter 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 after the cash reserve account established pursuant to the securitization agreement has been depleted. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. Loblaw believes that the likelihood of this occurrence is remote. The aggregate gross potential liability under this arrangement, which represents 15% of the securitized credit card receivables amount, is approximately $84.

A standby letter of credit has been provided by a major Canadian bank in the amount of $35 for the benefit of an independent trust which provides loans to Loblaw's franchisees for their purchase of inventory and fixed assets, mainly fixturing and equipment. In the event that a franchisee defaults on its loan and Loblaw has not, within a specified time period, (i) assumed the loan, (ii) purchased the assets of the defaulting franchisee over which security has been taken by the trust, or (iii) provided for an increase of the amount of the standby letter of credit by the outstanding amount under the loan, the trust may draw upon this standby letter of credit or realize on its security. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Lease Obligations

In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is $178 (2002 – $213).

Indemnification Provisions

The Company from time to time enters into agreements in the normal course of its business, such as service arrangements and leases, in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representation and warranty and for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. Given the nature of these indemnification provisions, the Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Notes to the Consolidated Financial Statements

21. Related Party Transactions

The Company's majority shareholder, 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. Rental payments to Wittington amounted to approximately $2 in 2003. It is the Company's policy to conduct all transactions and settle balances with related parties on normal trade terms. Also during 2003, Weston purchased for cancellation 2,013,092 of its common shares from Wittington for $192. For further details of this transaction, see note 16.

22. Segment Information

The Company has three reportable operating segments: Weston Foods, Food Distribution and Fisheries. The Weston Foods segment is primarily engaged in the baking and dairy industries within North America. The Food Distribution segment, which focuses on food retailing and is increasing its offering of non-food products and services in Canada, is operated by Loblaw. The Fisheries segment is primarily engaged in the hatching, growing and processing of fresh farmed salmon in North America and Chile. In prior years, the Company reported Weston Foods and Fisheries as one segment, Food Processing.

The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies. The Company measures each reportable operating segment's performance based on operating income. No reportable operating segment is reliant on any single external customer.

	2003	2002
Sales		
Weston Foods	**$ 4,523**	$ 4,792
Food Distribution	**25,220**	23,082
Fisheries	**190**	219
Intersegment	**(735)**	(647)
Consolidated	**$ 29,198**	$ 27,446
Operating Income (1)		
Weston Foods	**$ 374**	$ 409
Food Distribution	**1,458**	1,295
Fisheries	**(20)**	(26)
Consolidated	**$ 1,812**	$ 1,678
Depreciation		
Weston Foods	**$ 144**	$ 144
Food Distribution	**393**	354
Fisheries	**9**	9
Consolidated	**$ 546**	$ 507
Total Assets		
Weston Foods (2)	**$ 4,775**	$ 5,224
Food Distribution	**12,294**	11,167
Fisheries	**269**	292
Consolidated	**$ 17,338**	$ 16,683
Fixed Assets and Goodwill Purchases		
Weston Foods	**$ 233**	$ 311
Food Distribution	**1,313**	1,087
Fisheries	**7**	7
Consolidated	**$ 1,553**	$ 1,405

(1) 2003 includes restructuring and other charges of $60 made up of a $35 charge recognized by Weston Foods and a $25 charge recognized by Food Distribution (see note 2).

(2) Includes the $367 (2002 – $367) investment in Domtar common shares, which is effectively hedged as a result of Weston issuing the 3% Exchangeable Debentures (see note 14).

The Company operates primarily in Canada and the United States.

	2003	2002
Sales (excluding intersegment)		
Canada	**$ 25,770**	$ 23,650
United States	**3,428**	3,796
Consolidated	**$ 29,198**	$ 27,446
Fixed Assets and Goodwill		
Canada	**$ 8,542**	$ 7,635
United States	**2,203**	2,765
Consolidated	**$ 10,745**	$ 10,400