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, 2005

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, 2004 and 2003 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, 2004 and 2003 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, 2005

Consolidated Statements of Earnings

For the years ended December 31 ($ millions except where otherwise indicated)	2004	2003 restated (note 1)
Sales	$ 29,798	$ 29,021
Operating Expenses		
Cost of sales, selling and administrative expenses	27,260	26,588
Depreciation and amortization	620	537
Restructuring and other charges (note 2)	136	64
	28,016	27,189
Operating Income	1,782	1,832
Interest Expense and Other Financing Charges (note 3)	438	266
Earnings from Continuing Operations Before the Following:	1,344	1,566
Income Taxes (note 5)	368	435
	976	1,131
Minority Interest	370	324
Net Earnings from Continuing Operations	606	807
Discontinued Operations (note 7)	(178)	(15)
Net Earnings	$ 428	$ 792
Net Earnings (Loss) per Common Share – Basic ($)		
Continuing Operations (note 6)	$ 4.49	$ 5.91
Discontinued Operations	$ (1.38)	$ (0.11)
Net Earnings	$ 3.11	$ 5.80
Net Earnings (Loss) per Common Share – Diluted ($)		
Continuing Operations (note 6)	$ 4.48	$ 5.89
Discontinued Operations	$ (1.38)	$ (0.11)
Net Earnings	$ 3.10	$ 5.78

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 31 ($ millions except where otherwise indicated)	2004	2003
Retained Earnings, Beginning of Year	$ 4,046	$ 3,712
Impact of implementing new accounting standards (note 1)	(33)	(33)
Retained Earnings, Beginning of Year as Restated	$ 4,013	$ 3,679
Net earnings	428	792
Premium on common shares purchased for cancellation (note 16)	(58)	(273)
Dividends declared		
Per common share – $1.44 (2003 – $1.20)	(186)	(158)
Per preferred share – Series I – $1.45 (2003 – $1.45)	(13)	(13)
– Series II – $1.29 (2003 – $1.29)	(14)	(14)
Retained Earnings, End of Year	$ 4,170	$ 4,013

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 31 ($ millions)	2004	2003 restated (note 1)
ASSETS		
Current Assets		
Cash and cash equivalents (note 8)	$ 1,008	$ 965
Short term investments	388	545
Accounts receivable (note 9)	920	861
Inventories	1,979	1,914
Future income taxes (note 5)	175	186
Prepaid expenses and other assets	48	50
Current assets of operations held for sale (note 7)	62	179
Total Current Assets	4,580	4,700
Fixed Assets (note 10)	8,256	7,665
Goodwill and Intangible Assets (note 11)	3,456	3,518
Future Income Taxes (note 5)	107	72
Other Assets (note 12)	1,494	1,342
Long Term Assets of Operations Held for Sale (note 7)	11	89
Total Assets	$ 17,904	$ 17,386
LIABILITIES		
Current Liabilities		
Bank indebtedness	$ 123	$ 108
Commercial paper	840	696
Accounts payable and accrued liabilities	3,079	3,060
Income taxes	91	181
Short term bank loans (note 14)	102	67
Long term debt due within one year (note 14)	222	307
Current liabilities of operations held for sale (note 7)	22	8
Total Current Liabilities	4,479	4,427
Long Term Debt (note 14)	6,004	5,829
Future Income Taxes (note 5)	282	244
Other Liabilities (note 15)	693	656
Long Term Liabilities of Operations Held for Sale (note 7)		3
Minority Interest	2,066	1,797
Total Liabilities	13,524	12,956
SHAREHOLDERS' EQUITY		
Share Capital (note 16)	614	608
Retained Earnings	4,170	4,013
Cumulative Foreign Currency Translation Adjustment (note 19)	(404)	(191)
Total Shareholders' Equity	4,380	4,430
Total Liabilities and Shareholders' Equity	$ 17,904	$ 17,386

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)		2004	2003 restated (note 1)
Operating Activities			
Net earnings from continuing operations before minority interest		$ 976	$ 1,131
Depreciation and amortization		620	537
Restructuring and other charges (note 2)		136	64
Future income taxes		(37)	90
Change in non-cash working capital		(201)	(483)
Other		82	(45)
Cash Flows from Operating Activities of Continuing Operations		1,576	1,294
Investing Activities			
Fixed asset purchases		(1,425)	(1,502)
Short term investments		136	(199)
Proceeds on termination of financial derivatives (note 18)			338
Proceeds from fixed asset sales		118	88
Business acquisition (note 4)		(46)	
Credit card receivables, after securitization (note 9)		(34)	(16)
Franchise investments and other receivables		(25)	(47)
Other		(59)	(29)
Cash Flows used in Investing Activities of Continuing Operations		(1,335)	(1,367)
Financing Activities			
Bank indebtedness		21	63
Commercial paper		144	(19)
Short term bank loans (note 14)	– Issued	35	34
Long term debt (note 14)	– Issued	400	755
	– Retired	(305)	(103)
Share capital (note 16)	– Issued		1
	– Retired	(59)	(275)
Subsidiary share capital	– Issued (note 17)		2
	– Retired (note 4)	(35)	(76)
Dividends	– To shareholders	(205)	(178)
	– To minority shareholders	(80)	(63)
Other		(3)	(3)
Cash Flows (used in) from Financing Activities of Continuing Operations		(87)	138
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents (note 8)		(77)	(237)
Cash Flows from (used in) Continuing Operations		77	(172)
Cash Flows used in Discontinued Operations (note 7)		(34)	(20)
Change in Cash and Cash Equivalents		43	(192)
Cash and Cash Equivalents, Beginning of Year		965	1,157
Cash and Cash Equivalents, End of Year		$ 1,008	$ 965

See accompanying notes to the consolidated financial statements.

December 31, 2004
($ 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. Weston's interest in the voting share capital of its subsidiaries is 100% except for Loblaw Companies Limited ("Loblaw"), which is 61.8% (2003 – 61.7%).

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 2004 had 52 weeks of sales and related activities, resulting in an effective year end of January 1, 2005 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 recognizes sales upon delivery of their products to customers net of applicable reductions for discounts and allowances. Food Distribution recognizes sales, net of returns, 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 on an accrual basis and is recognized in operating income.

Allowance for Credit Losses

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

Securitization

PC Bank securitizes credit card receivables through the sale of a portion of the total interest in 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 a 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.

Vendor Allowances

Effective the third quarter of 2004, the Company implemented Emerging Issues Committee ("EIC") Abstract 144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EIC 144") retroactively with restatement of the prior year. EIC 144 provides that cash consideration received from a vendor is presumed to be a reduction in the cost of the vendor's products or services and should, therefore, be characterized as a reduction in the cost of sales and the related inventory when recognized in the customer's income statement and balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor's products, provided certain conditions are met.

The Company receives allowances from certain of its vendors whose products it purchases for resale. These allowances are received for a variety of buying and/or merchandising activities, including vendor programs such as volume purchase allowances, purchase discounts, listing fees and exclusivity allowances. As a result of implementing EIC 144, the timing of recognition of certain vendor allowances has changed. Upon retroactive implementation of EIC 144, the Company recorded a decrease to opening retained earnings for 2003 of $24 (net of current future income taxes recoverable of $11 and minority interest of $14), a decrease to inventories of $32 and an increase in accounts payable and accrued liabilities of $17. Current and prior years' net earnings were not materially impacted.

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 years for buildings, 10 years for building improvements and from 2 to 20 years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the estimated useful life and the term of the lease, plus renewal options when applicable, to a maximum of 10 years.

Effective January 1, 2004, the Company implemented Section 3063, "Impairment of Long-lived Assets", a standard issued by the Canadian Institute of Chartered Accountants ("CICA"), which addresses the recognition, measurement and disclosure of impairment of long-lived assets held-for-use. Long-lived assets are reviewed for impairment when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposal. An impairment loss is measured as the amount by which the long-lived assets' carrying value exceeds the fair value. Accordingly, the Company reviews long-lived assets for impairment annually. Asset groups are reviewed for impairment at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. For purposes of annually reviewing Weston's long-lived assets for impairment, manufacturing assets are grouped together by major production category where cash flows are largely dependent on each other. For purposes of annually reviewing Loblaw's store assets for impairment, store net cash flows are grouped together by primary market areas where cash flows are largely dependent on each other. Primary markets are regional areas where Loblaw operates a number of store formats within close proximity to one another. If an indicator of impairment exists, such as sustained negative operating cash flows of the respective asset group, then an estimate of undiscounted future cash flows of each such major production category for Weston, or store for Loblaw, is prepared and compared to its carrying value. For purposes of annually reviewing Loblaw's distribution centre assets for impairment, distribution centre net cash flows are grouped with the respective net cash flows of the stores they service. An impairment in the Loblaw store network serviced by the distribution centre would indicate an impairment in the distribution centre assets as well. If Weston's or Loblaw's assets are determined to be impaired, the impairment loss is measured as the excess of the carrying value over its fair value. In addition, the Company evaluates the carrying value of Weston's and Loblaw's long-lived assets whenever events or changes in circumstances indicate that the carrying value of long-lived assets may not be recoverable. These events or changes in circumstances include a commitment to close, retire or transfer manufacturing assets for Weston and to close a Loblaw store or distribution centre, or to relocate or convert a Loblaw store, where the carrying value of the assets is greater than the expected future cash flows.

The standard was applied prospectively during 2004. During 2004, the Company recognized asset impairment charges (see notes 2 and 7).

Assets to be disposed of are classified as held for sale, presented separately on the balance sheet and no longer depreciated. Assets held for sale are recognized at the lower of carrying value or fair value. A write-down is recognized in operating income or, if the plan of disposal meets the requirements of discontinued operations, the write-down is recognized in discontinued operations (see note 7).

Asset Retirement Obligations

Effective January 1, 2004, the Company implemented Section 3110, "Asset Retirement Obligations", a standard issued by the CICA, which addresses standards for recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded at its estimated fair value in the period in which the legal obligation is incurred and a corresponding asset is capitalized as part of the related asset and depreciated over its estimated useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation.

Accordingly, the Company has recognized a discounted liability associated with obligations arising from provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. As well, the Company has recognized a discounted liability associated with environmental decommissioning and remediation as required by environmental regulations that specify the manner in which certain assets must be decommissioned and/or remediated. The standard was implemented retroactively, with restatement of the prior year's consolidated financial statements. The cumulative effect of implementation was a decrease to opening retained earnings for 2003 of $9 (net of future income taxes recoverable of $5 and minority interest of $1), an increase in fixed assets of $3 and an increase in other liabilities of $17. The impact on net earnings for each of 2003 and 2004 was not material.

Deferred Charges

Debt issue costs associated with long term debt are deferred and amortized on a straight-line basis over the term of the debt. Other deferred charges are amortized over the related assets' estimated useful lives, to a maximum of 15 years.

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 an indefinite life are not subject to amortization and are tested at least annually for impairment. Intangible assets with a finite life are amortized over their estimated useful lives ranging from 5 to 30 years. 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 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 has also entered into an electricity contract to minimize price volatility and to maintain a portion of the Company's electricity costs in Ontario, Canada at approximately 2001 rates. The Company does not enter into derivative agreements for trading or speculative purposes.

Effective January 1, 2004, the Company implemented Accounting Guideline 13, "Hedging Relationships" ("AcG 13"), issued by the CICA which addresses the identification, designation, documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. Financial derivative instruments not designated within an AcG 13 compliant hedging relationship are measured at fair value with changes in fair value recorded in the consolidated statement of earnings in accordance with the EIC Abstract 128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments".

Pursuant to the requirements of AcG 13, the Company has formally identified, designated and documented the following hedging relationships: Weston's 3% Exchangeable Debentures as a hedge of the anticipated disposal of the Domtar Inc. ("Domtar") investment; Weston's interest rate swap as a fair value hedge of certain MTN; cross currency basis swaps and interest rate swaps as cash flow hedges against its exposure to fluctuations in the foreign currency exchange rate and variable interest rates on a portion of its United States dollar denominated assets, principally cash equivalents and short term investments held by Loblaw; Loblaw's interest rate swaps as a cash flow hedge of the variable interest rate exposure on commercial paper; commodity futures as a hedge of anticipated commodity purchases; and the electricity forward contract as a cash flow hedge of price volatility of the Company's electricity costs in Ontario, Canada. Effectiveness tests are performed to evaluate hedge effectiveness at inception and on an ongoing basis, both retrospectively and prospectively.

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 and other financing charges.

The exchange of interest payments on the interest rate swaps is recognized on an accrual basis in interest expense and other financing charges and unrealized gains and losses on the interest rate swaps designated within a compliant AcG 13 relationship are not recognized. On termination of a hedging relationship, realized and unrealized gains and losses on interest rate swaps are recognized in interest expense and other financing charges.

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 and other financing charges. Unrealized gains or losses on the interest rate swaps designated within a compliant AcG 13 relationship are not recognized.

Hedging relationships that ceased to be eligible for hedge accounting under AcG 13 were discontinued as of January 1, 2004 except for Weston's equity forward sale agreement based on 9.6 million Loblaw common shares (the "underlying Loblaw shares") as discussed below. The financial derivative instruments in these hedging relationships which were previously recorded on an accrual basis were fair valued as of January 1, 2004 and the resulting fair value loss was deferred and is being amortized over the original hedge term of approximately three years. The impact on the Company's financial condition and results of operation was not material. Subsequent changes in the fair value of these financial derivative instruments are recognized in interest expense and other financing charges.

Effective for the third quarter of 2004, hedge accounting is no longer permissible for Weston's forward sale agreement for 9.6 million Loblaw common shares as a result of the March 2004 amendment to EIC Abstract 56, "Exchangeable Debentures" ("EIC 56"). EIC 56 was amended to conform with the provisions of AcG 13, which deal with items ineligible for hedge accounting, by rescinding, effective the first fiscal period commencing after July 1, 2004, the ability to use hedge accounting if an entity's investment in the underlying shares is consolidated or is accounted for by the equity method. As a result of adopting this amendment to EIC 56, during the third quarter of 2004, Weston recognized a non-cash charge, which was included in consolidated interest expense and other financing charges, representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares from the beginning of the third quarter. The fair value adjustment is based on fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the 9.6 million Loblaw common shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the consolidated balance sheet in other assets and other liabilities. According to the transitional provisions, the non-cash fair value adjustment, as of the effective date of the amendment to EIC 56, of $125 will remain deferred and included in other assets on the consolidated balance sheet, and will be recognized in net earnings at maturity or upon termination of the forward sale agreement.

Gains and losses on the electricity forward contract which is designated as a hedge of a portion of electricity costs are recognized in operating income as actual electricity costs are 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 and other financing charges.

Unrealized and realized gains and losses on commodity futures which are designated as a hedge of future purchases are deferred in current assets or liabilities and are recognized in cost of sales when the inventory produced from the related commodity is sold.

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.

Employee Future Benefits

The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans, which include post-retirement, post-employment and long term disability benefits, are accrued based on actuarial valuations, which are determined using the projected benefit method prorated on service and management's best estimate of the expected long term rate of return on plan assets, rate of compensation increase, retirement ages and expected growth rate of health care costs. Actuarial valuations are performed using a September 30 measurement date for accounting purposes.

Market values are used to value benefit plan assets as at the measurement date. The accrued benefit plan obligation is measured using market interest rates as at the measurement date, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligation.

The cost of plan amendments and the excess net accumulated actuarial gain or loss over 10% of the greater of the accrued benefit plan obligation and the fair value of the benefit plan assets at the beginning of the year are amortized on a straight-line basis over the expected average remaining service period of the active employees. The expected average remaining service period of the active employees covered by the defined benefit pension plans ranges from 6 to 17 years, with a weighted average of 12 years at year end. The expected average remaining service period of the active employees covered by other benefit plans ranges from 4 to 16 years, with a weighted average of 13 years at year end.

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

Accrued benefit plan asset or liability represents the cumulative difference between the cost and the funding contributions and is recorded in accounts payable and accrued liabilities, other assets and other liabilities in the consolidated balance sheets. The amount recorded in accounts payable and accrued liabilities represents the estimated defined benefit pension plans and other benefit plans funding contributions for the following year.

In March 2004, the CICA issued amendments to Section 3461, "Employee Future Benefits", to enhance disclosure requirements relating to pension, post-retirement and post-employment benefit plans. The new annual and interim disclosures are effective for fiscal years and interim periods ending on or after June 30, 2004. Accordingly, the Company implemented the additional interim disclosures in the second quarter of 2004 and the additional annual disclosures are provided in note 13.

Stock-Based Compensation

Effective January 1, 2003, the Company elected early adoption, on a prospective basis, of the amended standard issued by the 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 its 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.

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 are 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 cost in operating income and as a liability.

Weston and Loblaw maintain Employee Share Ownership Plans ("ESOP") 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. Weston and Loblaw contribute an additional 15% of each employee's contribution to its plan. Effective February 1, 2005, Weston and Loblaw will increase their contribution to 25% 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 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. 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.

Certain estimates, such as those related to valuation of inventories, goodwill, indefinite life intangible assets, income taxes, employee future benefits and impairment of fixed assets, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements.

Comparative Information

Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the retroactive implementation of Section 3110 and EIC 144 as described above and due to discontinuing the Fisheries segment (see note 7).

2. Restructuring and Other Charges

The following table summarizes the restructuring and other charges:

	2004			2003
	Weston Foods	Food Distribution	Total	Total
Fixed Assets	$ 84	$ 16	$ 100	$ 45
Restructuring and Other Exit Costs	17		17	(6)
Intangible Assets	18		18	
Special Voluntary Early Retirement Program		1	1	25
Restructuring and Other Charges	$ 119	$ 17	$ 136	$ 64

Fixed Assets and Other Exit Costs

Weston Foods

Management continues to undertake a series of cost reduction initiatives to ensure a low cost operating structure. Certain of these initiatives have been initiated and are in progress or nearing completion while others are still in the planning stages. Individual actions will be initiated as plans are finalized and approved. During 2004, major actions implemented included the completion of the Northlake, Illinois and Buffalo, New York bakery facility closures, the closure of the frozen-baked goods facility in St. Louis, Missouri and the exiting of the fresh waffle business in the United States as well as the closure of three bakeries and a distribution centre in Canada. As a result of these initiatives and other various distribution outsourcing and overhead reduction projects, Weston Foods recorded total restructuring charges of approximately $53. These charges consisted of $36 of fixed asset write-downs and $17 of employee severance and other exit related cash costs. In addition, Weston Foods recognized $2 of accelerated depreciation with respect to these approved restructuring plans. During 2004, approximately $4 of the severance and other cash exit costs were paid. Included in fixed assets on the consolidated balance sheet is $11 of assets held for sale.

During 2004, an impairment review of the production assets employed in Weston Foods fresh-baked sweet goods category in the United States, which relate primarily to products sold under the *Entenmann's* brand name, was performed as a result of the significant decline in the profitability of this category in 2004. The production assets reviewed included land, buildings, machinery and equipment associated with three of Weston Foods' bakery facilities located in Bayshore and Albany, New York and Carlisle, Pennsylvania. Weston Foods' profitability in the United States fresh-baked sweet goods category remains challenged and continues to be negatively affected by:

- changing consumer eating and shopping preferences;
- a high fixed cost manufacturing and distribution structure;
- continuing commodity and people related cost pressures; and
- a difficult pricing environment for products in that category.

As a result of the impairment review, it was determined that the carrying value exceeded the estimated undiscounted cash flows expected from the use and eventual disposition of these production assets. Accordingly, a $48 non-cash pre-tax impairment charge was recognized in the fourth quarter of 2004 which was measured as the excess of the impaired assets carrying value over its estimated fair value. Fair value was determined using appraised values based on prices for similar assets. The impaired assets are primarily related to production assets held in the Bayshore, New York bakery facility.

In 2003, Weston Foods recognized in operating income a net charge of $35 relating to the rationalization of fresh bakery production lines in the United States and the closure of two bakery facilities in Canada. This charge consisted of $41 of fixed asset write-downs and $14 of employee severance costs offset by $20 recognized due to the completion of other restructuring activities for amounts less than previously recognized in the consolidated financial statements. Approximately $2 of the severance charge had been paid by the end of 2003. The restructuring activities from 2003 were substantially completed by the end of the third quarter of 2004 and a further $9 of employee severance costs has been paid in 2004.

On March 4, 2005, the Company announced a plan to restructure its United States biscuit operations operated by Weston Foods. The plan will result in the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia over the next 12 to 18 months. Employment at both facilities will be phased down as the majority of the production is relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota. Once completed, this initiative is anticipated to result in lowering annual manufacturing costs and strengthening Weston Foods' competitive position within its biscuit operations in the United States.

As a result of this restructuring, Weston Foods expects to recognize certain one-time exit and start-up costs of approximately $50 over the next 12 to 18 months including employee related severance and benefit costs, production equipment relocations, training and other facility start-up related costs. In addition, Weston Foods expects to recognize accelerated depreciation on assets currently held-for-use of approximately $25 over the next 12 to 18 months.

Food Distribution

Fixed asset impairment charges related to Food Distribution of $16 (2003 – $4) were recognized in restructuring and other charges. In addition, accelerated depreciation of $6 was recognized in depreciation and amortization. These charges were primarily as a result of an evaluation of the carrying value of fixed assets upon the occurrence of a change in circumstances including a commitment to close, relocate or convert a store. The majority of the charges in 2004 resulted from the repositioning of the Ontario, Canada banner portfolio. The fair values were determined using quoted market prices where available, independent offers to purchase where available or prices for similar assets.

Intangible Assets

During 2004, Weston Foods completed its annual impairment assessment of its indefinite life intangible assets. The assessment required management to make assumptions regarding projected future sales, terminal growth rates, royalty rates and discount rates to determine the estimated fair value of the intangible assets and compare them to their carrying value. As part of the annual impairment assessment of the *Entenmann*'s brand name, management reduced its previous estimate of the royalty rate used in the calculation of estimated fair value as Weston Foods' profitability in the fresh-baked sweet goods category has declined significantly and remains challenged as a result of the factors described above. As a result, the Company recorded an $18 non-cash pre-tax impairment loss to reduce the carrying value of Weston Foods' *Entenmann*'s brand name to estimated fair value.

Special Voluntary Early Retirement Program

In connection with the labour arrangement at Loblaw for *The Real Canadian Superstore* in Ontario, Canada, Loblaw recognized a charge of $25 in operating income during 2003 relating to the voluntary early retirement offers accepted by certain employees of Locals 1000A and 1977 of the United Food and Commercial Workers ("UFCW") union. During 2004, a net charge of $1 was recognized in operating income, representing an adjustment to the 2003 charge net of an additional amount associated with the acceptance of a voluntary early retirement offer by certain employees of Local 175 of the UFCW union. Approximately $5 of this accrual was paid by the end of 2003 and $19 was paid during 2004. At year end 2004, $2 remains outstanding.

3. Interest Expense and Other Financing Charges

	2004	2003 restated (note 1)
Interest on long term debt	$ 412	$ 397
Interest on financial derivative instruments (note 18)	(28)	(84)
Other financing charges (1)	82	(20)
Net short term interest	(7)	6
Capitalized to fixed assets	(21)	(33)
Interest expense and other financing charges	$ 438	$ 266

(1) Other financing charges for 2004 includes a non-cash expense of $101 related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares which was entered into during 2001 and matures in 2031. This non-cash charge was recognized prospectively in interest and other financing charges for the first time during the third quarter of 2004 due to the implementation of the amendment to EIC 56, which became effective at the beginning of the third quarter (see note 1). The fair value adjustment is based on the fluctuations in the market value of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the underlying Loblaw shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the balance sheet in other assets and other liabilities. Also included in other financing charges is income of $19 (2003 – $20) related to the forward accretion income, net of the forward fee associated with Weston's forward sale agreement.

Net interest paid in 2004 was $359 (2003 – $300).

4. Business Acquisitions

Weston Foods

On September 27, 2004, Weston purchased all of the issued and outstanding common shares of Boulangerie Gadoua Ltée ("Gadoua"), a bakery business operated in Quebec, Canada, for $59, consisting of $46 of cash consideration, $6 in Weston common shares issued from treasury and assumed debt of $7, subject to certain adjustments.

The acquisition was accounted for using the purchase method. During the fourth quarter of 2004, Weston completed the Gadoua valuation analysis and recorded the purchase equation, including goodwill of $21. Operating results of Gadoua have been included in the Company's consolidated financial statements since September 27, 2004.

Details of the purchase equation, including total consideration paid and net assets acquired at their fair value, are summarized below:

	As at Sept. 27, 2004
Current assets	$ 12
Fixed assets	19
Intangible assets	27
Current liabilities	(9)
Other liabilities	(3)
Long term debt	(7)
Future income taxes	(8)
Net assets acquired	31
Goodwill	21
	52
Less non-cash consideration:	
Weston common shares issued	(6)
Cash consideration	$ 46

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 2004, Loblaw purchased 576,100 (2003 – 1,282,900) of its common shares for $35 (2003 – $76) pursuant to its Normal Course Issuer Bid ("NCIB"), which resulted in the Company recognizing $16 (2003 – $34) of goodwill (see note 11).

During 2004, Westfair Foods Ltd. ("Westfair"), a subsidiary of Loblaw, redeemed its Class A shares at a price of 350 dollars per share for cash consideration of $8. The transaction was accounted for as a step-by-step purchase of Westfair, which resulted in Food Distribution recognizing $8 of goodwill (see note 11).

In the normal course of business, Loblaw may acquire from time to time franchisee stores and convert them to corporate stores. In 2004, Loblaw acquired 5 franchisee businesses (2003 – 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 a nominal amount of fixed assets (2003 – $7), other assets principally inventory of $2 (2003 – $6) and goodwill of $6 (2003 – $8) for cash consideration of $6 (2003 – $11), net of accounts receivable due from the franchisees of $2 (2003 – $10) (see note 11).

5. 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:

	2004	2003
Weighted average basic Canadian federal and provincial statutory income tax rate	35.1%	36.7%
Net decrease resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	(7.5)	(6.7)
Non-taxable amounts (including capital gains/losses and dividends)	(.6)	(1.1)
Large corporation tax	.8	.5
Enacted changes in income tax rates		.4
Impact of resolution of certain income tax matters from a previous year and other	(.4)	(2.0)
Effective income tax rate	27.4%	27.8%

In 2004, Loblaw recognized a $14 reduction to the income tax expense as a result of the successful resolution of certain income tax matters from a previous year. In 2003, Weston recognized a $34 reduction to the income tax expense as a result of the 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 2004 were $441 (2003 – $400).

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. Future income tax balances were therefore 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:

	2004	2003 restated (note 1)
Accounts payable and accrued liabilities	$ 184	$ 220
Other liabilities	212	144
Losses carried forward (expiring 2005 to 2024)	169	156
Other	32	43
Valuation allowances	(54)	(97)
Fixed assets	(320)	(269)
Goodwill	(56)	(44)
Intangible assets and other	(167)	(139)
Net future income tax assets	$ –	$ 14

	2004	2003 restated (note 1)
Presented on the consolidated balance sheets as:		
Future income tax assets		
Current	$ 175	$ 186
Non-current	107	72
	282	258
Future income tax liabilities	(282)	(244)
Net future income tax assets	$ –	$ 14

6. Basic and Diluted Net Earnings from Continuing Operations per Common Share

	2004	2003 restated (note 1)
Net earnings from continuing operations	$ 606	$ 807
Prescribed dividends on preferred shares	(27)	(27)
Net earnings from continuing operations available to common shareholders	$ 579	$ 780
Weighted average common shares outstanding (in millions)	128.9	131.9
Dilutive effect of stock-based compensation (in millions) (1)	.3	.4
Diluted weighted average common shares outstanding (in millions)	129.2	132.3
Basic net earnings from continuing operations per common share ($)	$ 4.49	$ 5.91
Dilutive effect of stock-based compensation per common share ($)	(.01)	(.02)
Diluted net earnings from continuing operations per common share ($)	$ 4.48	$ 5.89

(1) 193,000 (2003 – 204,000) stock options at an exercise price of $100.00 per common share were outstanding at the end of 2004 but were not recognized in the computation of diluted net earnings from continuing operations per common share because the options' exercise price was greater than the average market price of the common shares for the year.

7. Discontinued Operations

During 2004, Weston sold all of the Fisheries' operations in Chile for cash proceeds of $20 which resulted in a pre-tax loss of $9.

In December 2004, management approved a strategic plan to actively market for sale the remaining Fisheries operations. The operating results of the Fisheries segment are included in discontinued operations. In addition, the assets and liabilities relating to the Fisheries segment have been recorded at the lower of cost or fair value less costs to sell, resulting in an impairment charge of $194 ($147 net of tax) recognized in discontinued operations, and are classified as held for sale.

Certain financial information has been reclassified in prior periods to present this segment as discontinued operations on the consolidated statements of earnings, as assets held for sale and liabilities of operations held for sale on the consolidated balance sheets and as cash flows used in discontinued operations on the consolidated cash flow statements.

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

	2004	2003
Sales	$ 164	$ 177
Operating loss	29	20
Loss on disposal	9	
Impairment charge	194	
Loss before the following:	232	20
Income tax recovery	54	5
Loss from discontinued operations	$ 178	$ 15

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

	2004	2003
Current assets of operations held for sale:		
Accounts receivable	$ 20	$ 74
Inventories	41	103
Prepaid expenses and other assets	1	2
	$ 62	$ 179
Long term assets of operations held for sale:		
Fixed assets	$ 10	$ 47
Goodwill and intangible assets		24
Other assets	1	18
	$ 11	$ 89
Current liabilities of operations held for sale:		
Accounts payable and accrued liabilities	$ 22	$ 8
Long term liabilities of operations held for sale:		
Long term debt		$ 3

The cash flows used in discontinued operations were as follows:

	2004	2003
Cash flows used in operations	$ (39)	$ (11)
Cash flows from (used in) investing	7	(8)
Cash flows used in financing	(2)	(1)
Cash flows used in discontinued operations	$ (34)	$ (20)

8. Cash, Cash Equivalents and Short Term Investments

At year end, the Company had $1.4 billion (2003 – $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 $21 (2003 – $20) 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 $77 (2003 – $237) 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 $45 (2003 – $175) 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 $155 (2003 – $96) 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 $32 (2003 – $62) 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 2004, Loblaw, through PC Bank, securitized $227 (2003 – $202) of credit card receivables, yielding a nominal net gain (2003 – loss) on the initial sale, inclusive of a $1 (2003 – $2) servicing liability. Servicing liabilities expensed during the year were $11 (2003 – $9) and the fair value at year end of recognized servicing liabilities was $7 (2003 – $6). 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.

	2004	2003
Credit card receivables	$ 968	$ 711
Amount securitized	(785)	(558)
Net credit card receivables	$ 183	$ 153
Net credit loss experience	$ 4	$ 9

The net credit loss experience of $4 (2003 – $9) includes $23 (2003 – $22) of net credit losses on the total portfolio of credit card receivables net of credit card losses of $19 (2003 – $13) relating to securitized credit card receivables.

The following table outlines the key economic assumptions used in measuring the retained interests at the date of securitization for securitizations completed in 2004. The table also displays the sensitivity of the current fair value of retained interests to an immediate 10% and 20% adverse change in the 2004 key economic assumptions. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

		Change in Assumptions	
	2004	10%	20%
Carrying value of retained interests	$ 12		
Payment rate (monthly)	47.0%		
Weighted average life (years)	.6		
Expected credit losses (annual)	3.0%	$ (.4)	$ (.8)
Discount rate applied to residual cash flows (annual)	14.0%	$ (1.6)	$ (3.3)

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

	2004	2003
Proceeds from new securitizations	$ 227	$ 202
Net cash flows received on retained interests	$ 83	$ 53

10. Fixed Assets

	2004			2003 restated (note 1)		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	$ 378		$ 378	$ 361		$ 361
Properties under development	290		290	320		320
Land	1,623		1,623	1,461		1,461
Buildings	4,443	$ 863	3,580	3,848	$ 761	3,087
Equipment and fixtures	4,587	2,601	1,986	4,342	2,320	2,022
Buildings and leasehold improvements	688	296	392	684	282	402
	12,009	3,760	8,249	11,016	3,363	7,653
Capital leases – buildings and equipment	98	91	7	86	74	12
	$ 12,107	$ 3,851	$ 8,256	$ 11,102	$ 3,437	$ 7,665

11. Goodwill and Intangible Assets

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

			2004	2003 restated (note 1)
	Weston Foods	Food Distribution	Total	Total
Goodwill, beginning of year	$ 1,269	$ 1,724	$ 2,993	$ 3,338
Goodwill acquired during the year	21	30	51	44
Adjusted purchase price allocation (1)				(125)
Impact of foreign currency translation	(87)		(87)	(264)
Goodwill, end of year	1,203	1,754	2,957	2,993
Trademarks and brand names (2)	482		482	523
Other intangible assets	17		17	2
Goodwill and intangible assets	$ 1,702	$ 1,754	$ 3,456	$ 3,518

(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 2004 balance includes the acquisition of *Gadoua* trademarks and brand names of $15, the negative impact of the impairment charge for the *Entenmann*'s trademarks and brand names of $18 and the negative impact of foreign currency translation of $38 (2003 – $104).

The Weston Foods intangible assets primarily relate to $481 (2003 – $522) of trademarks and brand names, which have an indefinite useful life except for the *Gadoua* trademarks and brand names and, accordingly, are not being amortized. The *Gadoua* trademark and brand names and other intangible assets are being amortized over their estimated useful life ranging from 5 to 30 years.

The Weston Foods and Food Distribution goodwill and the Weston Foods intangible assets with an indefinite useful life are tested annually for impairment. During the fourth quarter of 2004, the Company performed the annual goodwill and indefinite life intangible assets impairment tests and determined that an impairment charge of $18 for the *Entenmann*'s trademarks and brand names was required (see note 2).

12. Other Assets

	2004	2003 restated (note 1)
Domtar investment (note 14)	$ 365	$ 367
Franchise investments and other receivables	329	322
Deferred loss on equity forward sale (note 18)	125	186
Accrued benefit plan asset (note 13)	232	183
Unrealized cross currency basis swaps receivable (notes 8 and 18)	155	96
Unrealized equity derivative receivable (note 18)	120	93
Deferred charges and other	168	95
	$ 1,494	$ 1,342

13. Employee Future Benefits

The Company offers a number of pension plans, which include registered funded defined benefit pension plans, supplemental unfunded arrangements which provide pension benefits in excess of statutory limits and defined contribution pension plans. Its defined benefit pension plans are predominantly non-contributory and these benefits are, in general, based on career average earnings.

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

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

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

The most recent actuarial valuation of the Canadian defined benefit pension plans for funding purposes ("funding valuation") was as of December 31, 2003. The Company is required to file Canadian funding valuations at least every three years; therefore, the next required valuation will be as of December 31, 2006. The most recent funding valuation of the U.S. defined benefit pension plans was as of January 1, 2004. The Company is required to file U.S. funding valuations every year; therefore, the next required valuation will be as of January 1, 2005.

Total cash payments made by the Company during 2004 consisting of contributions to funded defined benefit pension plans, defined contribution pension plans, multi-employer pension plans, long term disability benefit plan and benefits paid directly to beneficiaries of the unfunded defined benefit pension plans and unfunded other benefit plans were $219 (2003 – $270).

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

	2004			2003		
	Pension Benefit Plans	Other Benefit Plans (1)	Total	Pension Benefit Plans	Other Benefit Plans (1)	Total
Benefit Plan Assets						
Fair value, beginning of year	$ 1,224	$ 35	$ 1,259	$ 1,048	$ 27	$ 1,075
Actual return on plan assets	118	1	119	165	1	166
Employer contributions	89	23	112	135	28	163
Voluntary employee contributions	4		4	4		4
Benefits paid	(91)	(20)	(111)	(81)	(21)	(102)
Other, including impact of foreign currency translation	(25)		(25)	(47)		(47)
Fair value, end of year	$ 1,319	$ 39	$ 1,358	$ 1,224	$ 35	$ 1,259
Accrued Benefit Plan Obligations						
Balance, beginning of year	$ 1,509	$ 333	$ 1,842	$ 1,440	$ 330	$ 1,770
Current service cost	56	9	65	53	11	64
Interest cost	95	20	115	93	19	112
Benefits paid	(91)	(20)	(111)	(81)	(21)	(102)
Actuarial loss (gain)	33	(7)	26	84	75	159
Plan amendments		(11)	(11)	(4)	(54)	(58)
Other, including impact of foreign currency translation	(31)	(16)	(47)	(76)	(27)	(103)
Balance, end of year	$ 1,571	$ 308	$ 1,879	$ 1,509	$ 333	$ 1,842
Deficit of Plan Assets Versus Plan Obligations	$ (252)	$ (269)	$ (521)	$ (285)	$ (298)	$ (583)
Unamortized cost of plan amendments	10	(49)	(39)	10	(47)	(37)
Unamortized net actuarial loss	283	119	402	290	137	427
Net accrued benefit plan asset (liability)	$ 41	$ (199)	$ (158)	$ 15	$ (208)	$ (193)
Recognized in the consolidated balance sheets as follows:						
Accounts payable and accrued liabilities	$ (101)	$ (26)	$ (127)	$ (89)	$ (25)	$ (114)
Other assets (note 12)	193	39	232	154	29	183
Other liabilities (note 15)	(51)	(212)	(263)	(50)	(212)	(262)
Net accrued benefit plan asset (liability)	$ 41	$ (199)	$ (158)	$ 15	$ (208)	$ (193)

(1) Other Benefit Plans include post-retirement, post-employment and long-term disability benefits.

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

	2004		2003	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued Benefit Plan Obligations				
Unfunded plans	$ 71	$ 274	$ 71	$ 302
Funded plans	1,435		1,375	
	1,506	274	1,446	302
Fair Value of Benefit Plan Assets	1,253		1,159	
Deficit	$ 253	$ 274	$ 287	$ 302

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

	2004		2003	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued Benefit Plan Obligations				
Discount rate	6.2%	6.1%	6.3%	6.1%
Rate of compensation increase	3.5%		3.5%	
Net Defined Benefit Plan Cost				
Discount rate	6.3%	6.1%	6.6%	6.4%
Expected long term rate of return on plan assets	8.0%	4.5%	8.0%	5.0%
Rate of compensation increase	3.5%		3.6%	

The Company's growth rate of health care costs, primarily drug costs, was estimated at 9.0% (2003 – 9.0%) and is assumed to decrease to 5.0% in 2008 (2003 – 5.0% in 2011) and remain at that level thereafter.

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

	Percentage of Plan Assets			
	2004		2003	
Asset Category	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Equity securities	64%		63%	
Debt securities	34%	95%	34%	92%
Cash and cash equivalents	2%	5%	3%	8%
Total	100%	100%	100%	100%

Pension benefit plan assets include securities issued by Weston and by Loblaw having a fair value of $5 and nil (2003 – $5 and $1) respectively as at September 30. Other benefit plan assets do not include any Weston or Loblaw securities.

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

	2004		2003	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Current service cost, net of employee contributions	$ 52	$ 9	$ 49	$ 11
Interest cost on plan obligations	95	20	93	19
Actual return on plan assets	(118)	(1)	(165)	(1)
Actuarial loss (gain)	33	(7)	84	75
Plan amendments		(11)	(4)	(54)
Benefit plan costs, before adjustments to recognize the long term nature of employee future benefit costs	62	10	57	50
Difference between costs arising in the year and costs recognized in the year in respect of:				
Return on plan assets	20		84	
Actuarial (gain) loss	(22)	6	(68)	(76)
Plan amendments	2	6	6	53
Net defined benefit plan cost	62	22	79	27
Defined contribution plan cost	24		25	
Multi-employer pension plan cost	83		82	
Net benefit plan cost	$ 169	$ 22	$ 186	$ 27

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2004 and the sensitivity of a 1% change in each of these assumptions on the accrued benefit plan obligations and on the benefit plan cost for the defined benefit pension plans and other benefit plans. The table reflects the impact on the current service and interest cost components for the discount rate and expected growth rate of health care costs assumptions.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions. Actuarial gains and losses are amortized in accordance with Canadian GAAP, further reducing the volatility associated with these changes.

	Pension Benefit Plans		Other Benefit Plans	
	Accrued Benefit Plan Obligations	Benefit Plan Cost	Accrued Benefit Plan Obligations	Benefit Plan Cost
Expected long term rate of return on plan assets		8.0%		4.5%
Impact of: 1% increase	n/a	$ (12)	n/a	$ –
1% decrease	n/a	$ 12	n/a	$ –
Discount rate	6.2%	6.3%	6.1%	6.1%
Impact of: 1% increase	$ (208)	$ (14)	$ (33)	$ (2)
1% decrease	$ 242	$ 15	$ 38	$ 3
Expected growth rate of health care costs (1)			9.0%	9.0%
Impact of: 1% increase	n/a	n/a	$ 33	$ 6
1% decrease	n/a	n/a	$ (29)	$ (5)

n/a – not applicable

(1) Gradually decreasing to 5.0% in 2008 and remaining at that level thereafter.

14. Long Term Debt

	2004	2003 restated (note 1)
George Weston Limited		
Debentures		
Series B, current rate 3.23%, due on demand (i)	$ 102	$ 67
Series A, 7.45%, due 2004 (iii)		200
Series A, 7.00%, due 2031 (i)	466	466
Exchangeable Debentures, 3.00%, due 2023, redeemable in 2005 (ii) (v)		
Carrying amount	503	569
Deferred amount	(130)	(195)
Notes		
5.25%, due 2006	200	200
5.90%, due 2009	250	250
6.45%, due 2011	300	300
5.05%, due 2014 (iii)	200	
12.70%, due 2030		
Principal	150	150
Effect of coupon repurchase	(120)	(118)
7.10%, due 2032	150	150
6.69%, due 2033	100	100
Other at a weighted average interest rate of 7.12%, due 2005 to 2033	6	2
Loblaw Companies Limited		
Notes		
6.95%, due 2005 (v)	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	200	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	(18)	(11)
6.85%, due 2032	200	200
6.54%, due 2033	200	200
8.75%, due 2033	200	200
6.05%, due 2034	200	200
6.15%, due 2035 (iii)	200	
6.45%, due 2039	200	200
7.00%, due 2040	150	150
5.86%, due 2043	55	55
Other at a weighted average interest rate of 9.78%, due 2005 to 2043	43	43
Provigo Inc.		
Debentures		
Series 1997, 6.35%, due 2004 (iii)		100
Series 1996, 8.70%, due 2006	125	125
Other (iv)	5	9
Total long term debt	6,328	6,203
Less – amount due within one year	(222)	(307)
– amount due on demand	(102)	(67)
	$ 6,004	$ 5,829

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: 2005 – $222; 2006 – $328; 2007 – $5; 2008 – $392; 2009 – $378.

(i) During 2004, Weston issued $35 (2003 – $34) of Series B Debentures due on demand, which are at a current weighted average interest rate of 3.23%. 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 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 their market price 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 2004, 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 and repaid its $100 of 6.35% Series 1997 Provigo Inc. Debenture as it matured.

(iv) Other of $5 (2003 – $9) 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 at that time 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 2004, Loblaw issued $300 of 5.90% MTN due 2036 and the Loblaw $200 of 6.95% MTN matured and was repaid. In addition, $53 of the 3% Exchangeable Debentures were exchanged for Domtar Inc. common shares. A corresponding reduction in the investment in Domtar Inc. will also be recorded.

15. Other Liabilities

	2004	2003 restated (note 1)
Accrued benefit plan liability (note 13)	$ 263	$ 262
Accrued insurance liabilities	111	100
Stock-based compensation liability	92	103
Unrealized equity derivative liability (note 18)	118	113
Other	109	78
	$ 693	$ 656

In 2004, Loblaw completed two sale-leaseback transactions involving two of its warehouses. Under these transactions, the land, buildings and building improvements at the locations were sold for total cash consideration of $44 and leased back for an initial term of 5 years, with specified renewal options for up to 15 years. These leasebacks are accounted for as operating leases. The $14 gain on the sale-leaseback transactions was deferred and is being amortized over the initial lease terms.

16. Share Capital

	2004	2003
Common share capital	$ 126	$ 120
Preferred shares, Series I	228	228
Preferred shares, Series II	260	260
	$ 614	$ 608

Common Share Capital (authorized – unlimited)

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

	2004		2003	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	129,433,442	$ 120	132,279,822	$ 121
Issued from treasury (1)	67,337	7	18,812	1
Purchased for cancellation	(587,200)	(1)	(2,865,192)	(2)
Issued and outstanding, end of year	128,913,579	$ 126	129,433,442	$ 120
Weighted average outstanding	128,915,636		131,888,902	

(1) Includes $6 issued as consideration in the acquisition of Gadoua (see note 4) and $1 (2003 – $1) issued for stock options exercised (see note 17).

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) ($)

Weston has 10.6 million 5.15% Preferred Shares, Series II outstanding 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 2004, Weston purchased for cancellation 587,200 (2003 – 852,100) of its common shares for $59 million (2003 – $83 million). 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.

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.

17. Stock-Based Compensation ($ except table)

The Company maintains five 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. During 2004, Weston issued 8,604 (2003 – 18,812) common shares on the exercise of stock options for cash consideration of $.4 million (2003 – $.8 million), for which it had recorded a nominal stock-based compensation liability. The share appreciation value of $12 million (2003 – $14 million) was paid on the exercise of 238,627 (2003 – 269,039) stock options. In addition, 24,091 (2003 – 32,702) stock options were forfeited or cancelled during 2004.

During 2002, Weston granted 226,000 stock options at an exercise price of $100.00 per common share, which will be settled by issuing common shares. During 2003, 2,200 stock options were exercised and in 2004, 11,000 (2003 – 19,800) were forfeited or cancelled.

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 2004, Loblaw granted 45,000 (2003 – 2,387,746) stock options with a weighted average exercise price of $65.45 (2003 – $53.67) per common share under its existing stock option plan which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2004, Loblaw issued 3,000 (2003 – 93,200) common shares on the exercise of stock options for cash consideration of $.1 million (2003 – $2 million), for which it had recorded a nominal stock-based compensation liability (2003 – $4 million). The share appreciation value of $33 million (2003 – $28 million) was paid on the exercise of 985,395 (2003 – 802,701) stock options. In addition, 97,673 (2003 – 140,056) of Loblaw's stock options were forfeited or cancelled during 2004.

Subsequent to year end 2004, Loblaw granted 2,152,252 stock options under its current stock option plan, that allow for settlement in shares or in the share appreciation value in cash at the option of the employee, to 231 employees with an exercise price of $69.63 per common share.

Restricted Share Unit ("RSU") Plan

Weston and Loblaw adopted a RSU plan for certain employees. Under the RSU plan, performance periods of three years in duration are designated and commence on the date on which RSUs are awarded to each participant ("Award Date"). In respect of each such designated performance period, a participant is granted a number of RSUs, where each unit has a value equal to one Weston or Loblaw common share at the time of grant. Each RSU entitles the participant to receive a cash payment in the third calendar year following the applicable Award Date and in the amount calculated with reference to the trading price of a Weston or Loblaw common share on the Toronto Stock Exchange. Each RSU will be paid out no later than December 30 of that year.

The compensation cost related to the RSUs will be recognized in operating income over the term of the performance period based on the expected total compensation to be paid out at the end of the performance period.

Subsequent to year end 2004, Loblaw awarded 376,645 RSUs to 231 employees.

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. In 2004, 10,800 share appreciation rights were exercised and 32,800 (2003 – 7,000) were forfeited or cancelled.

Deferred Share Unit Plans

Independent 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 17,176 (2003 – 9,579) and Loblaw had 30,908 (2003 – 21,489) deferred share units outstanding.

Employee Share Ownership Plans

Weston and Loblaw maintain ESOP 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. Weston and Loblaw contribute an additional 15% of each employee's contribution to its plan. Effective February 1, 2005, Weston and Loblaw will increase their contribution to 25% of each employee's contribution to the plan. 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)	2004	2003
Stock-Based Compensation		
Stock option plans/share appreciation right plan cost	$ 31	$ 76
Equity derivatives gain	(34)	(87)
	(3)	(11)
Deferred share unit plans	3	1
Employee share ownership plans	3	2
Net stock-based compensation cost	$ 3	$ (8)

Stock option and share appreciation right transactions were as follows:

	2004		2003	
	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	2,005,094	$ 79.158	1,417,233	$ 62.867
Granted			937,414	$ 93.350
Exercised	(258,031)	$ 52.560	(290,051)	$ 45.259
Forfeited/cancelled	(67,891)	$ 92.968	(59,502)	$ 79.960
Outstanding options/rights, end of year (1)	1,679,172	$ 82.687	2,005,094	$ 79.158
Options/rights exercisable, end of year	598,262	$ 72.250	432,425	$ 55.201

(1) Options/rights outstanding, represented approximately 1.4% (2003 – 1.5%) 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:

	2004				
	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	380,460	1	$ 46.002	250,295	$ 44.079
$ 63.500 – $ 100.000	1,298,712	5	$ 93.435	347,967	$ 92.514

18. Financial Instruments

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

	Notional Amounts Maturing in							
	2005	2006	2007	2008	2009	Thereafter	2004 Total	2003 Total
Cross currency basis swaps		$ 11	$ 107	$ 210	$ 31	$ 755	$ 1,114	$ 1,214
Interest rate swaps	$ 361	$ (43)		$ 240	$ 140	$ 100	$ 798	$ 755
Equity derivatives				$ 92		$ 891	$ 983	$ 945
Electricity forward contract	$ 16						$ 16	$ 68

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 and other financing charges. 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.

Loblaw entered into cross currency basis swaps to receive $1.1 billion (2003 – $1.2 billion) of Canadian dollars in exchange for United States dollars, which mature by 2016. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. At year end, a cumulative unrealized foreign currency exchange rate receivable of $155 (2003 – $96) was recorded in other assets.

Interest Rate Swaps

During 2004, Weston entered into interest rate swap contracts with a notional value of $200 which mature in 2014. These interest rate swaps were designated as a fair value hedge of the $200 of 5.05% MTN due 2014. Under the terms of the interest rate swaps, Weston will receive a fixed interest rate of 4.8% and pay a floating interest rate.

In 2004, Weston interest rate swaps converting a net notional $75 of its 6.7% fixed rate debt into floating rate debt, matured.

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 and other financing charges. 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 $598 (2003 – $680) of its floating rate investments to fixed rate investments at 5.80% (2003 – 6.72%), which mature by 2013.

Subsequent to year end, Weston terminated its interest rate swaps with a notional value of $200 which were designated as a fair value hedge of the $200 of 5.05% MTN due 2014. The gain realized on the termination of these swaps will be deferred over the remaining term of the initial hedge and recognized in interest expense and other financing charges.

Equity Swaps and Forwards ($)

In 2004, Weston had cumulative outstanding equity swaps in its common shares of 1,686,700 (2003 – 1,686,700) at an average forward price of $103.17 (2003 – $103.17). In 2004, Loblaw had cumulative outstanding equity forwards in its common shares of 4.8 million (2003 – 4.8 million), with an average initial term of 10 years at an average forward price of $49.25 (2003 – $48.56) including $4.38 (2003 – $3.69) 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. The Company has included an unrealized market gain in other assets of $120 million (2003 – $93 million) relating to these swaps and forwards.

In 2001, Weston entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at a current forward price of $59.70 (2003 – $56.05) 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 was applied from inception of this agreement until the end of the second quarter of 2004.

Effective for the third quarter of 2004, hedge accounting is no longer permissible for Weston's forward sale agreement for 9.6 million Loblaw common shares as a result of the March 2004 amendment to EIC 56. EIC 56 was amended to conform with the provisions of AcG 13, which deal with items ineligible for hedge accounting, by rescinding the ability to use hedge accounting if an entity's investment in the underlying shares is consolidated or is accounted for by the equity method. The effective date to cease the hedge accounting described is the first fiscal period commencing after July 1, 2004. As a result of adopting this amendment to EIC 56, during the third quarter of 2004, Weston recognized a non-cash charge, included in consolidated interest expense and other financing charges, representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares from the beginning of the third quarter. The fair value adjustment is based on fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the 9.6 million Loblaw common shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the consolidated balance sheet in other assets and other liabilities. According to the transitional provisions, the non-cash fair value adjustment as of the effective date of the amendment to EIC 56 will remain deferred and included in other assets and other liabilities on the consolidated

balance sheet and will be recognized in net earnings at maturity or upon termination of the forward sale agreement. At year end, Weston had an obligation under this forward of $118 million (2003 – $113 million), which was included in other liabilities, and a deferred loss of $125 million (2003 – $186 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.

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 their 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.

	2004		2003	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long term debt liability	$ 6,328	$ 7,100	$ 6,203	$ 6,906
Long term debt liability (excluding Exchangeable Debentures)	$ 5,955	$ 6,596	$ 5,829	$ 6,337
Interest rate swaps net (liability) asset	$ (2)	$ 9		$ 13
Equity swaps and forwards net liability	$ 2	$ 2	$ (20)	$ (20)
Electricity forward contract net asset		$ 3		$ 2

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 and equity derivatives.

Credit Risk

The Company's exposure to credit risk relates to the Company's cash equivalents and short term investments, Weston Foods' trade accounts receivables and Food Distribution's credit card receivables and accounts receivable from franchisees, associates and independent accounts.

Credit risk associated with the Company's cash equivalents and short term investments results from the possibility that a counterparty may default on the repayment of a security. This risk is mitigated by the Company's policies and guidelines that require issuers of permissible investments to have a minimum A credit rating from a recognized credit rating agency and specify minimum and maximum exposures to specific issuers.

Weston Foods performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade accounts receivables in order to mitigate any possible credit losses.

Food Distribution's exposure to credit risk from PC Bank's credit card receivables and receivables from franchisees, associates and independents results from the possibility that customers may default on their payment obligation. PC Bank manages the credit card receivable risk by employing stringent credit scoring techniques and actively monitoring its credit card portfolio. Food Distribution accounts receivable from franchisees, associates and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements. In addition, these receivables are dispersed among a large, diversified group of customers.

19. Cumulative Foreign Currency Translation Adjustment

In 2004, 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 $213 (2003 – $253). This net change was due to the negative impact of translating the Company's U.S. net investment in self-sustaining foreign operations as a result of the strengthening of the Canadian dollar relative to the United States dollar since year end 2003.

20. Contingencies, Commitments and Guarantees

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

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

	Amounts Maturing in							
	2005	2006	2007	2008	2009	Thereafter to 2054	2004 Total	2003 Total
Operating lease payments	$ 215	$ 195	$ 172	$ 151	$ 130	$ 663	$ 1,526	$ 1,458
Expected sub-lease income	(65)	(53)	(46)	(36)	(27)	(72)	(299)	(210)
Net operating lease payments	$ 150	$ 142	$ 126	$ 115	$ 103	$ 591	$ 1,227	$ 1,248

At year end, the Company has committed approximately $357 (2003 – $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 $303 (2003 – $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 2004.

Guarantees

The Company has provided to third parties the following significant guarantees as defined pursuant to Accounting Guideline 14, "Disclosure of 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 $118 (2003 – $84).

A standby letter of credit has been provided by a major Canadian bank in the amount of $42 (2003 – $35) for the benefit of an independent funding trust which provides loans to Loblaw's franchisees for their purchase of inventory and fixed assets, mainly fixturing and equipment. The amount of the standby letter of credit is based on a defined formula and is equal to approximately 10% of the principal amount of the loans outstanding at any point in time. In the event that a franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remediated, the independent funding trust may assign the loan to Loblaw and 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 $145 (2003 – $178).

Indemnification Provisions

The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, 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 or 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 such 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.

In 2004, Weston was served with a statement of claim, in the amount of $20 for taxes owing and alleging a breach of tax related representations and warranties dealing with years prior to the 1998 sale of Weston's forest product business. The claim is being defended.

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 $4 in 2004 as well as a one time payment of $8 for a property designated for future development. 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 (see note 16).

From time to time, the Company and Loblaw and Wittington Investments, Limited may make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations and, as a result, may enter into agreements in that regard. These elections and accompanying agreements do not have any material impact on the Company.

22. Segment Information

The Company has two reportable operating segments: Weston Foods and Food Distribution. 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 general merchandise products and services in Canada, is operated by Loblaw. In prior years, the Company reported Weston Foods in the Food Processing segment.

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

	2004	2003 restated (note 1)
Sales		
Weston Foods	$ 4,335	$ 4,523
Food Distribution	26,209	25,220
Intersegment	(746)	(722)
Consolidated	$ 29,798	$ 29,021
Operating Income (1)		
Weston Foods	$ 138	$ 374
Food Distribution	1,644	1,458
Consolidated	$ 1,782	$ 1,832
Depreciation and Amortization		
Weston Foods	$ 147	$ 144
Food Distribution	473	393
Consolidated	$ 620	$ 537
Total Assets		
Weston Foods (2)	$ 4,652	$ 4,817
Food Distribution	13,179	12,301
Discontinued Operations	73	268
Consolidated	$ 17,904	$ 17,386
Fixed Assets and Goodwill Purchases		
Weston Foods	$ 188	$ 233
Food Distribution	1,288	1,313
Consolidated	$ 1,476	$ 1,546

(1) 2004 includes restructuring and other charges of $136 (2003 – $64) made up of a $119 (2003 – $35) charge recognized by Weston Foods and a $17 (2003 – $29) charge recognized by Food Distribution (see note 2).

(2) Includes the $365 (2003 – $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.

	2004	2003 restated (note 1)
Sales (excluding intersegment)		
Canada	$ 26,749	$ 25,741
United States	3,049	3,280
Consolidated	$ 29,798	$ 29,021
Fixed Assets and Goodwill		
Canada	$ 9,268	$ 8,469
United States	1,945	2,189
Consolidated	$ 11,213	$ 10,658