CONTENTS

The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("Weston") and its subsidiaries (collectively, the "Company") should be read in conjunction with the consolidated financial statements and the accompanying notes on pages 61 to 93 of this Annual Report. The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. A Glossary of terms and ratios used throughout this Annual Report can be found on page 98. The information in this MD&A is current to March 11, 2005, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions.

These forward-looking statements are not facts, but only predictions. Although the Company believes that these statements are based on information and assumptions, which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from the estimates, projections and intentions. Such differences may be caused by factors which include, but are not limited to, changes in consumer spending, preferences and consumers' nutritional and health related concerns, changes in the competitive environment including changes in pricing and market strategies of the Company's competitors and the entry of new competitors and expansion of current competitors, the ability to realize anticipated cost savings, the Company's relationship with its employees, results of labour negotiations including the terms of future collective bargaining agreements, changes to the regulatory environment in which the Company operates now or in the future, performance of third party service providers, the ability of the Company to attract and retain key executives, the success rate of the Company in developing and introducing new products and entering new markets and supply and quality control issues with vendors. A discussion of these and other risks and uncertainties is included in the Operating and Financial Risks and Risk Management sections of this MD&A. The Company cautions that the list of factors is not exhaustive.

Potential investors and other readers are urged to consider these factors carefully in evaluating these forward-looking statements and are cautioned not to place undue reliance on them. The forward-looking statements included in this Annual Report, including this MD&A, are made only as of the date of this Annual Report and the Company does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events contained in these forward-looking statements may or may not occur. The Company cannot assure that projected results or events will be achieved.

OVERVIEW

Weston is a Canadian public company, founded in 1882 and is one of North America's largest food processing and distribution companies. Weston has two reportable operating segments: Weston Foods and Food Distribution. The Weston Foods operating segment is primarily engaged in the baking and dairy industries within North America. The Food Distribution operating segment, which is operated by Loblaw Companies Limited and its subsidiaries ("Loblaw"), is Canada's largest food distributor and is expanding into certain general merchandise categories and services. Weston also operates a Fisheries business which is now reported as a discontinued operation.

VISION

Weston seeks long term, stable growth in its operating segments while accepting prudent operating risks through continuous capital investment supported by a strong balance sheet, thereby providing sustainable returns to its shareholders through a combination of common share price appreciation and dividends.

The Company believes, to be successful over the long term, it must deliver on what its customers and consumers want, today and in the future. The Company also believes it must provide consumers with the best in one-stop shopping and continually introduce innovative products and convenient services that meet consumers' everyday household needs.

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

OPERATING AND FINANCIAL STRATEGIES

In order to be successful in delivering long term value and to fulfill its long term objectives of security and growth, the Company employs various operating and financial strategies. Although a few of them may carry some short term risk, the Company employs these various strategies in order to achieve its long term vision. Each of the Company's two reportable operating segments has its own risk profile and operating risk management strategy.

Weston Foods' long term operating strategies include:

- focusing on core brands, products, customers and markets;
- focusing on the development of new products to grow market share and penetration;
- ensuring its range of products are meeting the nutritional and dietary concerns of consumers;
- ongoing cost reduction initiatives to ensure a low cost operating structure and economies of scale;
- simplifying and removing complexity from both manufacturing and distribution processes;
- targeting strategic acquisitions and relationships to broaden market penetration and expand geographic presence; and
- continuous capital investment to strategically position production facilities across North America to support growth and enhance productivity and efficiencies.

Food Distribution's long term operating strategies include:

- using the cash flow generated in its business to invest in its future;
- owning its real estate, where possible, to maximize flexibility for product and business opportunities in the future;
- using a multi-format approach to maximize market share over the longer term;
- focusing on food but serving the consumer's everyday household needs;
- creating customer loyalty and enhancing price competitiveness through a superior control label program;
- implementing and executing plans and programs flawlessly; and
- constantly striving to improve its value proposition.

The Company's financial strategies include:

- maintaining a strong balance sheet;
- minimizing the risks and costs of its operating and financing activities;
- reinvesting cash flow in the business; and
- maintaining liquidity and access to capital markets.

The Company believes that if it successfully implements and executes its various operating and financial strategies, plans and programs and continues to focus on flawless execution, it will be well positioned to continue to provide sustainable returns to its shareholders over the long term.

KEY PERFORMANCE INDICATORS

The Company reviews and monitors its activities and key performance indicators which it believes are important to measuring whether the implementation of its operating and financial strategies and plans and programs are successful. Some of the Company's key financial performance indicators are set out below.

Key Financial Performance Indicators	2004	2003(2)
Sales growth	2.7%	6.5%
Basic net earning from continuing operations per common share growth	(24.0)%	13.9%
Net debt (excluding Exchangeable Debentures) (1) to equity ratio	1.26:1	1.16:1
Return on average common shareholders' equity	14.8%	20.0%
Common dividend payout ratio	24.4%	23.1%

(1) See Supplementary Financial Information beginning on page 57.

(2) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements and due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

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

OVERALL FINANCIAL PERFORMANCE

Consolidated Results of Operations

($ millions except where otherwise indicated)		2004		2003 (1)		2002 (1)
Sales	$	29,798	$	29,021	$	27,239
Net earnings from continuing operations	$	606	$	807	$	708
Net earnings	$	428	$	792	$	690
Net earnings from continuing operations per common share ($)						
Basic	$	4.49	$	5.91	$	5.19
Diluted	$	4.48	$	5.89	$	5.16
Net earnings per common share ($)						
Basic	$	3.11	$	5.80	$	5.05
Diluted	$	3.10	$	5.78	$	5.02

(1) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

The Company continued to compete successfully in very challenging markets during 2004. Although Loblaw reported strong results with earnings per share up 15%, the consolidated operating performance was negatively impacted by two significant non-operational events. Baking industry conditions have changed significantly over the past year and the Company's North American bakery operations have faced a challenging marketplace impacted by changing consumer eating preferences and food shopping patterns, a difficult sales pricing environment as well as continued inflationary cost pressures. The Company continued to respond to these challenging conditions and execute on opportunities to improve the long term competitive position of its North American baking operations, which has resulted in restructuring charges taken by the Company during 2004. In addition, consistent with Weston's strategy of focusing primarily on its core business segments of baking and food and general merchandise distribution, the Company decided to actively market for sale the Fisheries business. This resulted in a non-cash impairment charge for this now discontinued operation. The financial results for the Fisheries segment have been classified and reported separately as discontinued operations and the Fisheries segment results for prior periods have been restated accordingly.

The following discussion details the factors and trends that have impacted the Company's financial performance over the past two fiscal years.

The 52-week reporting cycle followed by the Company periodically necessitates a 53-week fiscal year, which occurred in 2003.

In 2004, consolidated sales increased 2.7% to $29.8 billion from $29.0 billion in 2003. Sales growth for 2004 includes a 2% negative impact from the 53rd week in 2003. On a comparable 52-week basis, sales growth for 2004 was approximately 4.7%. In 2003, consolidated sales increased 6.5% from $27.2 billion in 2002. Sales growth for 2003 includes a 2% positive impact from the 53rd week. On a comparable 52-week basis, sales growth for 2003 was approximately 4.5%. Consolidated net earnings from continuing operations decreased $201 million, or 24.9%, to $606 million from $807 million in 2003. In 2003, consolidated net earnings from continuing operations increased $99 million, or 14.0%, from $708 million in 2002. Consolidated net earnings decreased $364 million, or 46.0%, to $428 million in 2004 from $792 million in 2003. In 2003, consolidated net earnings increased $102 million, or 14.8%, from $690 million in 2002.

The 2004 basic net earnings from continuing operations per common share of $4.49 decreased 24.0% in line with the decrease in consolidated net earnings from continuing operations. The 2004 basic net earnings per common share of $3.11 declined by 46.4% compared to $5.80 in 2003. The decline is primarily attributable to the negative impact of $2.46 relating to the combined impact of the Fisheries loss from discontinued operations, the impairment and restructuring charges incurred by the Weston Foods operating segment and higher interest expense and other financing charges due to the change in the accounting standard relating to Weston's 2001 forward sale agreement of Loblaw common shares.

The Company's consolidated financial statements are expressed in Canadian dollars but a significant portion of its Weston Foods business is carried on in United States dollars through its investment in self-sustaining foreign operations in the United States ("U.S. net investment"). Changes in the exchange rate for United States dollars will affect the Company's sales, net earnings and the value of the Company's assets and liabilities on its consolidated balance sheet, either positively or negatively as a result of translating the U.S.

net investment into Canadian dollars. In 2003 and 2004, due to the significant appreciation in the Canadian dollar relative to the United States dollar, sales, net earnings and the value of the Company's net assets were negatively impacted as a result of foreign currency translation.

Over the past two years, the Weston Foods bakery operations have operated in a challenging market place impacted by changing consumer eating preferences and food shopping patterns, a difficult pricing environment as well as continued inflationary cost pressures. The changing consumer eating preferences, including a focus on health and diet, have negatively impacted Weston Foods' sales of traditional white flour based products, in particular white bread and fresh-baked sweet goods. In addition, consumer shopping patterns continued to shift toward alternate format retail channels over traditional, conventional supermarket formats. These continuing trends are more fully discussed under Weston Foods operating results in the Results of Reportable Operating Segments section of this MD&A.

During this period, Weston Foods' sales have been positively impacted by its focus on:
- penetrating new sales channels, particularly with alternate format retailers;
- strong sales growth in the bakery whole grain and higher-priced premium product categories including growth in low carbohydrate products ("low-carb"); and
- the development and introduction of new and expanded convenience and health related product offerings including "On the Go" individual portioned products as well as Omega-3, no cholesterol, reduced fat, no trans fat and organic products.

In the second half of 2004, sales price increases were implemented that were more significant and across more product categories than in prior years. These increases helped to partially mitigate the impact of the continued cost inflation experienced across the baking industry. Over the last two years, Weston Foods has restructured its asset base to reduce costs and operate more efficiently. Management continues to review cost reduction and other strategic initiatives, including manufacturing asset and distribution network optimization, to ensure a low cost operating structure and continual improvement in its competitive cost position.

Food Distribution sales increased 3.9% in 2004, including a 2% negative impact from the 53rd week in 2003. On a comparable 52-week basis, sales were 5.9% ahead of last year. The 2004 sales increase resulted from increased same-store sales on an equivalent 52-week basis and increased net retail square footage. Sales in 2003 increased 9.3%, including a 2% positive impact from the 53rd week. On a comparable 52-week basis, sales growth for 2003 was approximately 7.3%. The 2003 sales increase also resulted from increased same-store sales on an equivalent 52-week basis and increased net retail square footage. Sales for 2003 were impacted by the investment in lower pricing and a delay in new store construction. Food Distribution sales may be influenced by a number of factors, including changes in net retail square footage, same-store sales, inflation, expansion into new services and/or departments and the activities of competitors. Over the past two years, Food Distribution has invested approximately $1.3 billion in capital annually, resulting in an increase in net retail square footage of approximately 5.3 million square feet or 13%. In addition to the net increase in retail square footage, corporate store sales per average square foot rose from $588 in 2002 (restated to conform with the current year's presentation) to $592 in 2004. The amount of new net retail square footage and the timing of store openings and closures within any given year may vary; there have not been significant variances in the annual increase in weighted average net retail square footage. The increase in weighted average net retail square footage was 6.4% in 2004 and 5.6% in 2003. Growth in same-store sales was 1.5% in 2004 and 4.7% in 2003 on an equivalent 52-week basis. National food price inflation remained relatively low in 2003, increasing to between 1% to 2% in 2004. The launch of *The Real Canadian Superstore* ("*The RCSS*") in Ontario, Canada has had an impact on same-store sales in that region by replacing mature, well performing stores that were previously included in same-store sales, and by creating pricing pressures on other Company stores located within the respective trading areas. In pursuit of improving its value proposition, Food Distribution has established price leadership in specific markets by adopting everyday low pricing strategies. Consistent with its strategy of focusing on food but serving the consumer's everyday household needs, Food Distribution has expanded its general merchandise offerings over this period and the retail sales growth realized in those categories continues to surpass the retail sales growth of food. Competitor activity varied by market. During the past two years, unprecedented levels of retail square footage, mainly associated with food offerings, have been introduced into certain markets, resulting in pressure on prices and customer retention. Initiatives to reduce retail operating costs were successful in the areas of inventory shrinkage and labour efficiency, and complemented buying synergies and cost minimizing initiatives within the warehouse and distribution network and administrative functions. Food Distribution's capital investment program resulted in new, larger stores replacing older, smaller stores, which dampened short term earnings growth as sales developed and leveraged lower variable costs off the new fixed cost base.

The following analysis details factors that have impacted the Company's consolidated sales and net earnings over the past two years.

Sales The Company's 2004 consolidated sales increased 2.7% to $29.8 billion from $29.0 billion in 2003, including a 2% negative impact from the 53rd week in 2003 and a 1% negative impact from the foreign currency translation of the Weston Foods operating segment. Consolidated sales growth for 2004 was impacted by each reportable operating segment as follows:

- Negatively by 0.6% due to the sales decline of 4.2% at Weston Foods, which includes a negative impact of foreign currency translation of approximately 6% and a negative impact of approximately 2% due to the additional week in 2003.
- Positively by 3.4% due to the sales increase of 3.9% at Food Distribution, including the negative impact of 2% due to the additional week in 2003, partially offset by same-store sales growth of 1.5% on an equivalent 52-week basis.

The Company's 2003 consolidated sales increased 6.5% including a 2% positive impact from the 53rd week and a 2% negative impact from the foreign currency translation of the Weston Foods operating segment. Consolidated sales growth for 2003 was impacted by each reportable operating segment as follows:

- Negatively by 1.0% due to a sales decline of 5.6% at Weston Foods, primarily due to the negative impact of foreign currency translation of approximately 9% partially offset by the positive impact of the additional week.
- Positively by 7.8% due to sales growth of 9.3% at Food Distribution. The Food Distribution sales growth, inclusive of the effects of the investment in lower pricing, resulted from the impact of the 53rd week and increased same-store sales and net retail square footage, but was negatively impacted by a delay in new store construction.

Operating Income The Company's 2004 consolidated operating income decreased $50 million, or 2.7%, to $1.8 billion. The Company's 2003 consolidated operating income increased $128 million, or 7.5%, to $1.8 billion from $1.7 billion in 2002.

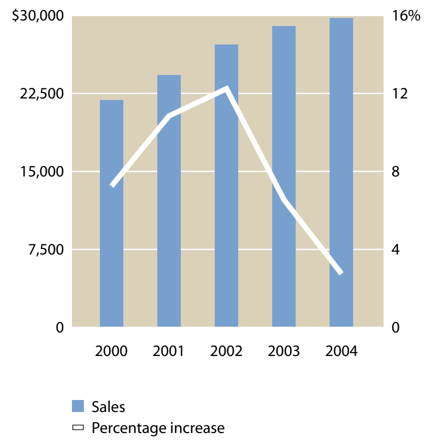
The Company's 2004 consolidated operating income was impacted by each of its reportable operating segments as follows:

- Negatively by 12.9% due to an operating income decline of 63.1% at Weston Foods, primarily due to a $66 million charge related to the impairment of fixed assets and intangible assets of the *Entenmann's* operation in the United States and $53 million of restructuring and exit costs associated with cost reduction initiatives approved during the year, compared to a restructuring and exit cost charge of $35 million in 2003. In addition, Weston Foods' 2003 operating income was negatively impacted by foreign currency translation as a result of the significant appreciation of the Canadian dollar relative to the United States dollar. Operating margins were lower in 2004, including the negative impact of higher stock-based compensation cost net of the impact of the related equity derivatives.
- Positively by 10.2% due to an operating income increase of 12.8% at Food Distribution, primarily due to improvements in operating margins offset by higher stock-based compensation cost net of the impact of the related equity derivatives. In addition, operating income for 2004, included fixed asset impairment charges of $16 million compared to $4 million in 2003. Operating income in 2003 included an extra week of earnings and a $25 million charge from the voluntary early retirement offer accepted by employees in Ontario, Canada affected by *The RCSS* labour arrangement.

The Company's 2004 consolidated operating margins declined to 6.0% from 6.3% in 2003, and consolidated EBITDA (see Supplementary Financial Information beginning on page 57) margins declined to 8.1% from 8.2% in 2003. Consolidated margins declined in 2004 primarily due to the impairment of fixed assets and intangible assets within the Weston Foods' *Entenmann's* operation in the United States and the restructuring and exit costs associated with cost reduction initiatives undertaken within the Weston Foods operating

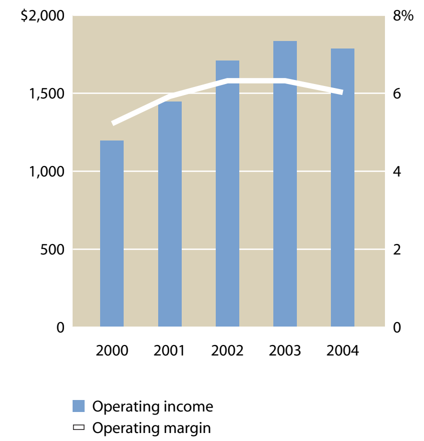
Sales and Percentage Increase

($ millions)



Operating Income[1] and Margin

($ millions)



(1) 2004 includes restructuring and other charges of $136 (2003 – $64) (see note 2 to the consolidated financial statements).

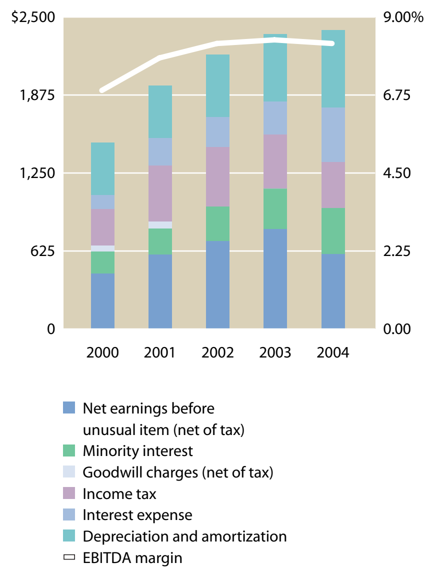
segment partially offset by improved margins in Food Distribution due to buying synergies, a continued focus on administrative cost control and the efficiency resulting from improvements in supply chain operations.

The Company's 2003 consolidated operating income was impacted by each of its reportable operating segments as follows:

- Negatively by 2.1% due to an operating income decline of 8.6% at Weston Foods, primarily due to the inclusion of a restructuring charge of $35 million recognized as a result of the closure of two bakery facilities in Canada and the rationalization of certain bakery production lines in the United States. In addition, Weston Foods' 2003 operating income was negatively impacted by foreign currency translation as a result of the significant appreciation of the Canadian dollar relative to the United States dollar.
- Positively by 9.6% due to an operating income increase of 12.6% at Food Distribution, primarily due to higher sales, offset by a $25 million charge recognized as a result of the voluntary early retirement offer accepted by Ontario employees affected by *The RCSS* labour arrangement.

The Company's 2003 consolidated operating margins of 6.3% was consistent with 2002, and consolidated EBITDA margins improved to 8.2% from 8.1% in 2002. Consolidated margins continued to improve in 2003 due in part to a continued focus on administrative cost control and operating efficiencies, the maturing of new stores opened in the past few years in Food Distribution, the realized synergies from the George Weston Bakeries integration and reduced net stock-based compensation cost, partially offset by the negative impact of the restructuring and other charges noted above.

Analysis of EBITDA[1, 2] and EBITDA Margin
($ millions)



(1) 2004 includes restructuring and other charges of $136 (2003 – $64) (see note 2 to the consolidated financial statements).
(2) See Supplementary Financial Information beginning on page 57.

Interest Expense and Other Financing Charges Interest expense and other financing charges consist primarily of interest on short and long term debt, the amortization of deferred financing costs, the interest and other financing charges on financial derivative instruments and interest earned on short term investments net of interest capitalized to fixed assets.

In 2004, interest expense and other financing charges increased $172 million, or 64.7%, to $438 million from $266 million in 2003. The increase is explained as follows:

- Interest expense on long term debt increased $15 million, or 3.8%, to $412 million from $397 million in 2003 as a result of an increase in average borrowing levels offset by lower weighted average interest rates and the impact of the 53rd week in 2003.
- Interest on financial derivative instruments includes the net positive effect of the Company's interest rate swaps, cross currency basis swaps and equity derivatives and amounted to income of $28 million (2003 – $84 million). The decrease in interest income was mainly due to the termination of currency and interest derivatives in late 2003 and the maturity of interest rate swaps during 2004.
- During 2004, a non-cash expense of $101 million was recorded in other financing charges representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares (the "underlying Loblaw shares"). The Company began recognizing this charge prospectively during the third quarter of 2004 due to the implementation of the amendment to Emerging Issues Committee ("EIC") Abstract 56, "Exchangeable Debentures" ("EIC 56"), which became effective at the beginning of the third quarter of 2004. This fair value adjustment is based on the 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 underlying Loblaw shares (see the Accounting Standards Implemented in 2004 section below and note 3 to the consolidated financial statements).
- Net short term interest income of $7 million compared to interest expense of $6 million in 2003 due in part to interest income on income tax refunds received in 2004 and lower floating Canadian interest rates, partially offset by lower United States dollar denominated cash, cash equivalents and short term investments.
- During 2004, $21 million (2003 – $33 million) of interest expense was capitalized to fixed assets. Food Distribution capitalizes interest incurred on debt related to real estate properties under development.

In 2003, interest expense and other financing charges increased $28 million, or 11.8%, to $266 million from $238 million in 2002. The increase is explained as follows:

- Interest expense on long term debt increased $34 million, or 9.4%, to $397 million from $363 million in 2002 as a result of the impact of the 53rd week combined with an increase in average long term debt levels.
- Interest on financial derivative instruments amounted to income of $84 million (2002 – $57 million).
- Net short term interest expense of $6 million compared to interest income of $18 million in 2002 due to higher average short term Canadian borrowing levels and lower average short term United States investment rates.
- During 2003, $33 million (2002 – $30 million) of interest expense was capitalized to fixed assets.

The 2004 weighted average interest rate of fixed long term debt (excluding capital lease obligations and the Exchangeable Debentures) was 6.7% (2003 – 6.8%) and the weighted average term to maturity was 16 years (2003 – 16 years). The 2005 interest expense and other financing charges, excluding the impact of any non-cash charge relating to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares, is expected to increase marginally due to higher weighted average debt levels and interest rates.

Income Taxes The Company's 2004 effective income tax rate decreased to 27.4% from 27.8% in 2003. The decrease was the result of the following factors:

- declining Canadian federal statutory income tax rate;
- Loblaw's successful resolution in 2004 of certain income tax matters from a previous year of $14 million;
- the income tax impact related to stock-based compensation and the associated equity derivatives;
- the $7 million charge in 2003 for an adjustment to future income tax balances due to the increase in corporate income tax rates in Ontario, Canada; and
- a reduction in 2003 of $34 million to the income tax expense due to the favourable resolution of an income tax issue previously accrued for by the Company.

The Company's 2003 effective income tax rate decreased to 27.8% compared to 32.5% in 2002. The decrease was the result of the following factors:

- declining Canadian federal statutory income tax rate;
- the favourable resolution of an income tax issue, previously accrued for by the Company, which related to the disposition of the Company's Forest Products business in 1998; the reversal of this accrual resulted in a reduction of $34 million to the income tax expense and a decrease of 2.2% in the Company's effective income tax rate in 2003; and
- an adjustment to future income tax balances caused by the increase in corporate income tax rates by the Ontario provincial government; in 2003, the Ontario government enacted a 1.5% increase in corporate income tax rates from 12.5% in 2003 to 14% in 2004, and repealed the scheduled 2004 to 2006 income tax rate reductions of 1.5% per annum; the adjustment to the future income tax balances resulted in a $7 million charge to future income tax expense in 2003.

The Company's 2005 effective income tax rate is expected to be reasonably consistent with the 2004 effective tax rate before the positive impact of the $14 million accrual reversal discussed above. However, the Company's effective income tax rate also varies as the proportion of taxable income by tax jurisdictions changes from year to year.

Net Earnings from Continuing Operations Net earnings from continuing operations for 2004 decreased $201 million, or 24.9%, to $606 million from $807 million in 2003. Basic net earnings from continuing operations per common share for 2004 decreased $1.42, or 24.0%, to $4.49 from $5.91 in 2003. The 2004 basic net earnings from continuing operations per common share of $4.49 included a negative impact of $1.08 per common share as a result of the following factors:

- a charge of $0.31 per common share related to the impairment of fixed assets and intangible assets associated with the Weston Foods *Entenmann's* operation in the United States;
- a further charge of $0.27 per common share related to restructuring and exit activities and accelerated depreciation for other Weston Foods bakery facilities;
- a non-cash charge of $0.51 per common share relating to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares; and
- income of $0.01 per common share related to net stock-based compensation compared to a corresponding income of $0.08 per common share in 2003.

Net earnings from continuing operations for 2003 increased $99 million, or 14.0%, to $807 million from $708 million in 2002. Basic net earnings from continuing operations per common share for 2003 increased $0.72, or 13.9%, to $5.91 from $5.19 in 2002.

Discontinued Operations The Fisheries segment continued to experience challenges throughout 2004 including depressed fresh salmon market prices and demand impacted by the negative publicity directed toward the farmed salmon industry earlier this year, continued supply volatility in the market and the significant appreciation of the Canadian dollar as compared to the United States dollar. The outlook for the Fisheries segment, given current market conditions, is for continued operating losses. During 2004, Weston sold all of the Fisheries operations in Chile for cash proceeds of $20 million, which resulted in a loss of $9 million. Also during 2004, management and the Board of Directors approved a strategic plan to actively market for sale the remaining Fisheries operations. Accordingly, the results of the Fisheries segment have been classified and reported separately as discontinued operations in the audited consolidated financial statements and the Fisheries segment results for prior years have been restated accordingly. The loss from discontinued operations for 2004, net of income taxes, was $178 million, compared to $15 million in 2003, including the charge related to the impairment of assets and the loss on the sale of the operations in Chile incurred in 2004. The loss from discontinued operations for 2002, net of income taxes, was $18 million.

Net Earnings Changes in the Company's net earnings over the past two years were impacted by the factors described above. In addition, the Company implemented several new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") that impacted the financial results over the past two years. The following standards were implemented prospectively in 2003:

- AcG 14, "Disclosure of Guarantees";
- Section 3475, "Disposal of Long-lived Assets and Discontinued Operations";
- EIC Abstract 134, "Accounting for Severance and Termination Benefits"; and
- EIC Abstract 135, "Accounting for Costs Associated with Exit and Disposal Activities (Including Costs Incurred in a Restructuring)".

The implementation of these standards did not have a material impact on the Company's financial position or results of operations in 2003.

The new accounting standards implemented in 2004 and the resulting impact on the financial position and results of operations are outlined in the Accounting Standards section of this MD&A.

Minority interest did not have a significant impact on the Company's net earnings growth rates over the past two years as Weston's ownership of Loblaw has not significantly changed over this period.

Consolidated Financial Condition

($ millions except where otherwise indicated)	2004	2003 (1)	2002 (1)
Total assets	$ 17,904	$ 17,386	$ 16,802
Total long term debt (excluding amount due within one year)	$ 6,004	$ 5,829	$ 5,387
Dividends declared per share ($) – Common share	$ 1.44	$ 1.20	$ .96
– Preferred share:			
– Series I	$ 1.45	$ 1.45	$ 1.49
– Series II	$ 1.29	$ 1.29	$ .93

(1) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements and due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

The Company's total assets have increased over the past two years. Fixed assets have grown as a result of the capital investment program net of annual depreciation of both operating segments and the impairment and restructuring charges taken within the Weston Foods and Food Distribution operating segments. In addition, Weston Foods acquired Boulangerie Gadoua Ltée ("Gadoua") with total assets the Company valued at $79 million. As a result of the annual impairment test of indefinite life intangible assets, Weston Foods has taken an impairment charge of $18 million related to the *Entenmann's* trademarks and brand names. Food Distribution inventory level growth parallels that of the growth in new stores and the required supply chain inventory investment to support new stores. Food Distribution's inventory turns of general merchandise categories are lower than those of food categories, resulting in higher aggregate levels of investment in general merchandise inventory. Food Distribution's accounts receivable from franchised stores, associated stores and independent accounts have also grown consistently with that business. A substantial portion of credit card receivables of President's Choice Bank

("PC Bank"), a wholly owned subsidiary of Loblaw, is sold to an independent trust and the unsecuritized balance net of loss provision has increased by $37 million since 2002. The increase in other assets resulted mainly from an increase in the accrued benefit plan assets due to increased funding, an increase in the unrealized equity derivative receivable as a result of the increase in the market price of Weston's and Loblaw's common shares and an increase in Loblaw's unrealized cross currency basis swap receivable due to the appreciation of the Canadian dollar relative to the United States dollar. In 2004 and 2003, the Company's total assets were reduced by the translation of the Company's U.S. net investment in self-sustaining operations due to the significant strengthening of the Canadian dollar relative to the United States dollar.

In December of 2004, the Company decided to renew its search for a buyer of the Fisheries operations and has therefore recorded the assets and liabilities relating to this business at the lower of cost or fair value less costs to sell, resulting in an after-tax impairment charge of $147 million recognized in discontinued operations. The remaining Fisheries assets have been classified as held for sale on the consolidated balance sheets.

Although cash flows from operating activities have covered a large portion of the funding requirements for the Company over the past two years, external funding was also required. Incremental long term debt issued in 2004 was well below that of 2003 mainly due to improved cash flows from operating activities. The amount of fixed rate debt issued in any given year is intended to continue to preserve the Company's liquidity.

Cash flows from operating activities cover a large portion of the Company's funding requirements and in 2004, exceeded the Company's capital investment program of $1.4 billion. Over the past two years, the Company's funding requirements resulted primarily from:

- the capital investment program;
- defined benefit pension plan contributions;
- non-cash working capital requirements; and
- purchases of Weston and Loblaw common shares pursuant to their respective Normal Course Issuer Bids ("NCIB").

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 million (2003 – $253 million). This net change was due to the negative impact of translating the Company's U.S. net investment (see note 19 to the consolidated financial statements).

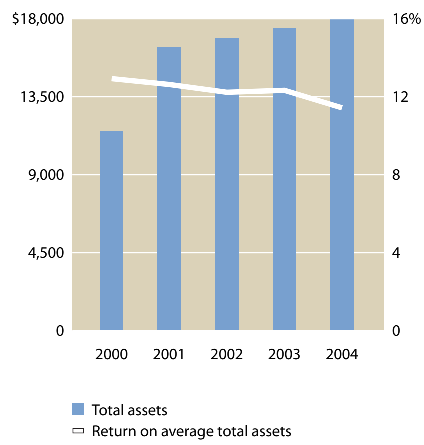
Financial Ratios In 2004, the Company's financial position as measured by its financial ratios, balance sheet and cash flow, continued to support the Company's credit rating. This position is expected to continue in 2005.

The Company's 2004 return on average total assets (see Supplementary Financial Information beginning on page 57) of 11.4% was slightly lower than the 2003 return of 12.3%. This was primarily due to lower operating income in 2004 including the negative impact of higher restructuring and other charges in 2004 compared to 2003. The Company's 2003 return on average total assets of 12.3% increased slightly compared to the 2002 return of 12.2%. This return increased after accounting for the significant capital investment and business acquisitions over the past several years.

The Company's 2004 return on average common shareholders' equity of 14.8% decreased compared to the 2003 return of 20.0%, primarily due to lower net earnings from continuing operations, which includes the impact of lower Weston Foods operating results, and higher interest expense and other financing charges including the $101 million non-cash charge related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares. The Company's 2003 return on average common shareholders' equity was 20.0% compared to the 2002 return of 18.9%. This increase in 2003 was mainly due to higher net earnings from continuing operations and the repurchase for cancellation of Weston's common shares in 2003. The five year average annual return on common shareholders' equity was 17.8%.

Total Assets and Return on Average Total Assets(1)

($ millions)

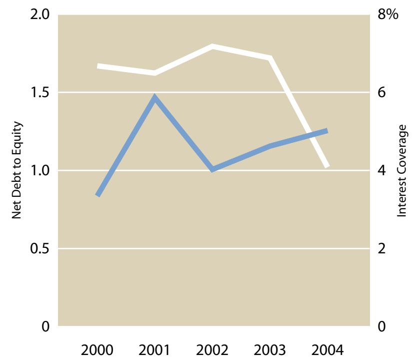


(1) See Supplementary Financial Information beginning on page 57.

The Company's 2004 net debt (excluding the Exchangeable Debentures) (see Supplementary Financial Information beginning on page 57) to equity ratio was 1.26:1 compared to the 2003 ratio of 1.16:1. The increase in 2004 in this ratio from 2003 was the result of the following factors:

- higher average debt levels;
- a decrease in United States dollar denominated cash, cash equivalents and short term investments resulting from foreign currency translation and the decrease in shareholders' equity resulting from the translation of the Company's U.S. net investment due to the significant appreciation of the Canadian dollar relative to the United States dollar in 2004;
- increased funding requirements, primarily due to defined benefit pension plan contributions and working capital requirements;
- the purchase for cancellation of Weston common shares; and
- lower net earnings primarily due to:
  - the restructuring and other charges incurred by Weston Foods in 2004;
  - the $101 million non-cash charge related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares; and
  - the loss from discontinued operations.

Net Debt[1] to Equity and Interest Coverage



(1) See Supplementary Financial Information beginning on page 57.

The 2005 ratio is expected to improve as a result of retained earnings growth offset by a marginal increase in debt levels. The Company's 2003 net debt (excluding the Exchangeable Debentures) to equity ratio was 1.16:1 compared to the 2002 ratio of 1.01:1. The increase in this ratio resulted partially from the decrease in United States dollar denominated cash, cash equivalents and short term investments resulting from foreign currency translation and the decrease in shareholders' equity resulting from the translation of the Company's U.S. net investment. Both of these decreases were due to the significant appreciation of the Canadian dollar relative to the United States dollar in 2003. Increased funding requirements, primarily due to defined benefit pension plan contributions and working capital along with the purchase for cancellation of Weston common shares, also negatively impacted the net debt to equity ratio in 2003.

The 2004 interest coverage ratio declined to 4.1 times compared to 6.9 times in 2003 due to lower operating income, higher interest expense and other financing charges, including the $101 million non-cash charge related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares. Adjusting for the impact of the non-cash charge related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares, the 2004 interest coverage ratio was 5.3 times. The 2003 interest coverage ratio declined to 6.9 times compared to 7.2 times in 2002 due mainly to higher interest expense and other financing charges.

Dividends The Company's common dividend policy is to maintain a common dividend payment equal to approximately 20% to 25% of the prior year's normalized basic net earnings from continuing operations per common share, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During 2004, Weston's Board of Directors (the "Board") declared quarterly common dividends of $0.36 per common share, quarterly preferred dividends of $0.36 per preferred share, Series I and quarterly preferred dividends of $0.32 per preferred share, Series II. The 2004 annualized dividend per common share of $1.44 was equal to 24.4% of the 2003 normalized basic net earnings from continuing operations per common share and was within Weston's common dividend policy range. Subsequent to year-end, the Board declared a quarterly dividend of $0.36 per common share, payable April 1, 2005 which, on an annualized basis, maintains the 2004 dividend rate per common share.

Outstanding Share Capital The Company's outstanding share capital is comprised of common shares and preferred shares. An unlimited number of common shares is authorized and, at year end, 128,913,579 common shares were outstanding. An unlimited number of preferred shares Series I and Series II are authorized and, at year-end, 9,400,000 preferred shares Series I and 10,600,000 preferred shares Series II were outstanding. For preferred shares Series I and Series II holders, Weston may at any time after issuance, 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. In addition, for preferred shares Series II holders, on or after July 1, 2009, these outstanding preferred shares are convertible, at the option of the holder, into a number of Weston common shares determined by dividing $25.00 by the greater of $2.00 and 95% of the then current market price of Weston common shares. During 2004, Weston issued from treasury, 58,733 common shares as partial consideration for the acquisition of Gadoua. Further information on the Company's outstanding share capital is provided in note 16 to the consolidated financial statements.

RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion details the 2004 results of operations of each of the Company's reportable operating segments.

Weston Foods Operating Results

($ millions except where otherwise indicated)	2004	2003	Change
Sales	$ 4,335	$ 4,523	(4.2)%
Operating income (1)	$ 138	$ 374	(63.1)%
Operating margin	3.2%	8.3%	
EBITDA (1, 2)	$ 285	$ 518	(45.0)%
EBITDA margin	6.6%	11.5%	
Return on average total assets (2, 3)	3.6%	8.9%	

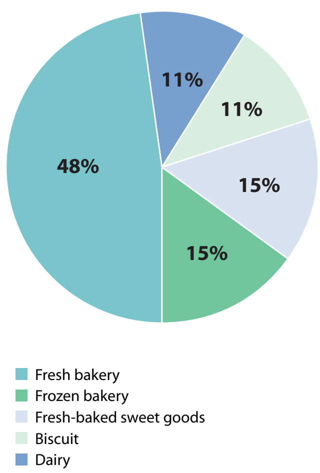
(1) 2004 includes restructuring and other charges of $119 (2003 – $35). See note 2 to the consolidated financial statements.

(2) See Supplementary Financial Information beginning on page 57.

(3) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 as discussed in note 1 to the consolidated financial statements.

Sales Weston Foods sales decreased 4.2% to $4.3 billion from $4.5 billion in 2003. The additional week of operating results in 2003 negatively impacted 2004 sales growth by approximately 2%. A significant portion of Weston Foods business is carried on through its U.S. net investment. Sales growth for 2004 was negatively impacted by approximately 6%, as a result of translating the U.S. net investment and the significant appreciation in the Canadian dollar relative to the United States dollar in 2003. Adjusted for the impact of the extra week in 2003, overall sales volume increased by approximately 1% with changes in sales mix and price increases contributing approximately 3% to sales growth.

Weston Foods 2004 Sales

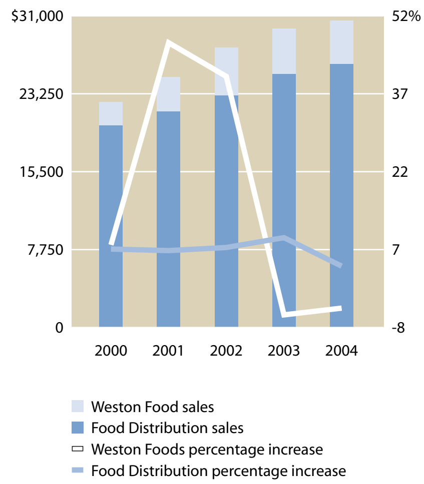


Fresh bakery sales, which represent approximately 48% of total Weston Foods sales, contributed positively to overall sales growth in 2004. This sales growth was driven by the introduction of new products, volume growth in premium and whole grain products as well as sales price increases offset by volume declines in white flour based products and the exit of the *Thomas'* waffle category. Premium bread brands, such as *Arnold*, *Brownberry* and *Country Harvest*, had impressive sales growth. These brands included a strong low-carb product entry and capitalized on the whole grain heritage built up over a number of years. The *Friehofer* and *Dutch Country* brands were expanded to include the *Family Grains* line of whole grain breads and the *Country Harvest* Omega-3 bread was introduced. *Thomas'* branded sales continued to enjoy strong market share positions in English muffins and bagels. Despite the exit of the waffle category at the end of 2004, *Thomas'* branded sales contributed positively to overall sales growth in 2004 on a comparative 52-week basis, due to the introduction of new and expanded on trend products. *Thomas'* introduced its *Hearty Grains* line which includes a variety of whole grain English muffins.

Sales in the fresh-baked sweet goods category, which represent approximately 15% of total Weston Foods sales, declined in 2004 driven by volume decreases, partially offset by sales price increases. This category, primarily sold under the *Entenmann's* brand, continues to experience a challenging sales environment particularly in the full-size cake and danish products. Individual portioned products such as doughnuts and *Little Bites* continued to experience growth in 2004. In 2005, management will continue to evaluate all options related to its fresh-baked sweet goods category including exiting certain markets and product categories.

During 2004, Weston Foods launched several low-carb Atkins® endorsed products primarily sold under the *Arnold*, *Brownberry* and *Entenmann's* brand names. However, during the second half of 2004, Weston Foods discontinued most of the Atkins® endorsed *Entenmann's* products launched earlier in the year due to disappointing sales performance. The *Arnold/Brownberry* Atkins® endorsed breads enjoy a strong position in the low-carb market share but sales growth in these products slowed during the second half of 2004.

Core Segments Sales[1] **and Percentage Increase**
($ millions)



(1) Includes intersegment sales.

Frozen bakery sales, which represent approximately 15% of total Weston Foods sales, contributed positively to overall sales growth in 2004 through the introduction of new products and growth with existing and new customers.

Weston Foods' United States biscuit category represents approximately 11% of total Weston Foods sales. Biscuit sales contributed negatively to overall sales growth in 2004 primarily due to lower cone, wafer and Girl Scout cookie sales.

Dairy sales, which represent approximately 11% of total Weston Foods sales, continued their momentum in 2004, with growth in the value-added category, a favourable sales mix and the successful launch of Neilson *Dairy Oh!* milk enriched with DHA and Power Bar® protein beverages, exclusively manufactured and distributed in Canada by Weston Foods.

Additionally, sales growth in 2004 has been affected by the following:

- **Changing consumer eating preferences**: While price continues to be important, today's busy consumer is also placing value on convenience and products that can be consumed away from the home. In addition, consumer food choices continue to be impacted by a focus on better health and diet, which has increased consumer demand for products that offer healthy alternatives and negatively impacted Weston Foods sales of traditional white flour based products. Weston Foods continues to respond to these trends by introducing and expanding products such as *Thomas'* bagels and English muffins, *Entenmann's* Little Bites, *Country Harvest* Omega-3 bread, *Arnold Whole Grain Classics* breads and Neilson *Dairy Oh!* milk enriched with DHA, an essential Omega-3 fatty acid.
- **Changing consumer food shopping patterns**: Consumer food shopping patterns continue to shift toward alternate format retail channels over traditional, conventional supermarket formats. The growth in alternate format retailers has also resulted in new sales channels as drug and dollar stores begin to expand their food offerings. Weston Foods has participated in the alternate format retailer channel growth in 2004 and expects continued success in 2005. The difficulty experienced by traditional food retailers will challenge Weston Foods sales growth since they remain a significant sales channel for Weston Foods products. However, Weston Foods expects to continue to manage this consumer shift in shopping patterns and ensure its products are distributed to consumers with the quality and freshness they expect.
- **A difficult sales pricing environment**: Recovering core product cost inflation through sales price increases remains challenging in the North American baking industry as a result of competitive and customer forces. Weston Foods increased sales prices across most fresh product categories in 2004 more aggressively than in 2003. This contributed positively to sales growth but was somewhat offset by volume declines in certain categories as a result of the pricing action.

In 2005, Weston Foods will continue to execute its operational plans and strategies as it believes they will provide sustainable sales growth over the long term.

Operating Income Weston Foods operating income decreased $236 million, or 63.1%, to $138 million from $374 million in 2003. In 2004, operating results include the impact of a $66 million charge related to the impairment of fixed assets and intangible assets employed in the fresh-baked sweet goods category primarily sold under the *Entenmann's* brand name and $53 million (2003 – $35 million) of restructuring and exit costs associated with certain cost reduction initiatives approved during 2004. Both of these charges are included in restructuring and other charges and are discussed in more detail below.

Operating margin for the year decreased to 3.2% from 8.3% in 2003 and EBITDA margin for the year decreased to 6.6% from 11.5% in 2003, inclusive of the 2.0% negative impact due to higher restructuring and other charges incurred during 2004 as compared to 2003. The net combined impact of foreign currency translation and higher net stock-based compensation cost net of the related equity derivatives negatively impacted Weston Foods operating income growth by approximately 2% in 2004.

Weston Foods 2004 operating income was disappointing and operating income margin declined due to higher restructuring and other charges as well as a series of factors which contributed to a very challenging operating environment for Weston Foods. These factors are discussed below.

Sales growth during 2004, including volume and sales price improvements, particularly in the second half of the year, positively impacted 2004 operating income and margin. This was more than offset by the negative impact of significant inflation in ingredient, energy and employee related benefit costs, as well as higher spending in consumer promotions. Also, 2004 operating margin was negatively impacted by higher ingredient, production, distribution and product launch costs, incurred as a result of the complexities associated with many of the new low-carb product introductions and the ongoing change in product sales mix. In the near term, the contribution from the new products introduced in 2004 and the growth in whole grain premium products is not expected to fully compensate for the operating income declines experienced in 2004.

In 2004, Weston Foods experienced a positive sales mix shift as consumers shifted consumption from traditional white flour based bakery products to higher priced whole grain and premium products. However, this product shift added more variety into the product sales mix and has created certain complexities that have negatively impacted operating income. In addition, the introduction of new products to meet consumer demands resulted in higher product return costs as market presence for the new products was established.

The new whole grain and premium products introduced to meet consumer trends generally require more ingredients and processing which add cost to the manufacturing process. Further, the introduction of these new products has resulted in an increased number of shorter production runs, resulting in more production line changeovers and reduced cost efficiencies in certain production facilities. In 2004, Weston Foods experienced these production inefficiencies as a result of its shifting product sales mix. Weston Foods continues to work on optimizing its long term operating strategy of simplifying and removing complexity from its manufacturing processes. This includes focusing manufacturing capacity for longer production runs and where appropriate, outsourcing shorter run products to contract manufacturers. The increased use of contract manufacturers and focused manufacturing facilities generally increases distribution complexity and costs.

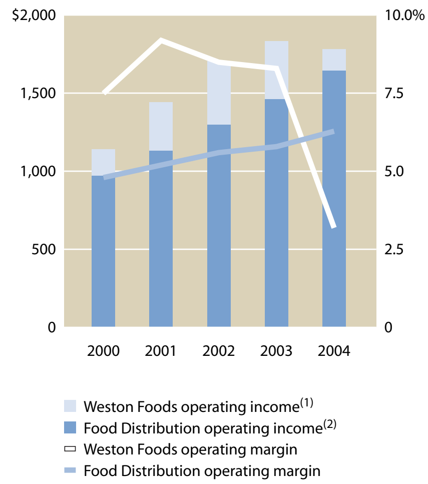
The product sales mix shift experienced in 2004 resulted in volume declines in certain core fresh-baked categories as discussed above. This volume decline had a negative impact on Weston Foods' ability to efficiently leverage the fixed costs incurred in manufacturing and distribution. Weston Foods continually evaluates its assets with the objective of ensuring the most competitive fixed cost structure.

Weston Foods continues to evaluate cost reduction and other strategic initiatives, particularly related to the fresh-baked sweet goods category in the United States and reducing administrative costs, to ensure a low cost operating structure and an improving competitive cost position. Initiatives currently being evaluated include manufacturing asset and distribution network optimization. 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 and additional charges may be taken as plans are finalized and approved. During 2004, major actions implemented included:

- completion of the Northlake, Illinois and Buffalo, New York bakery facility closures;
- exiting of the fresh waffle business in the United States;
- closure of the frozen bakery goods production facility in St. Louis, Missouri completed during the first quarter of 2005; and
- closure of three production facilities and one distribution centre in Canada.

Core Segments Operating Income and Operating Margin

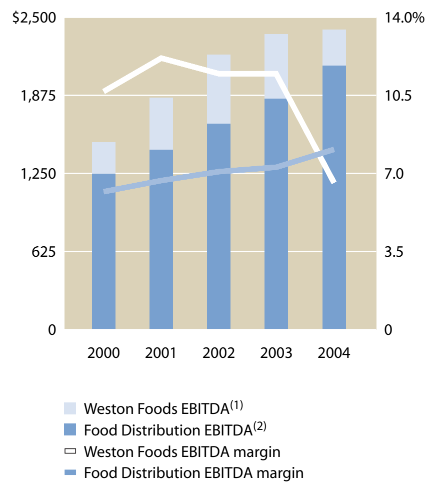
($ millions)



(1) 2004 includes restructuring and other charges of $119 (2003 – $35) (see note 2 to the consolidated financial statements).
(2) 2004 includes restructuring and other charges of $17 (2003 – $29) (see note 2 to the consolidated financial statements).

Core Segments EBITDA[3] and EBITDA Margin

($ millions)



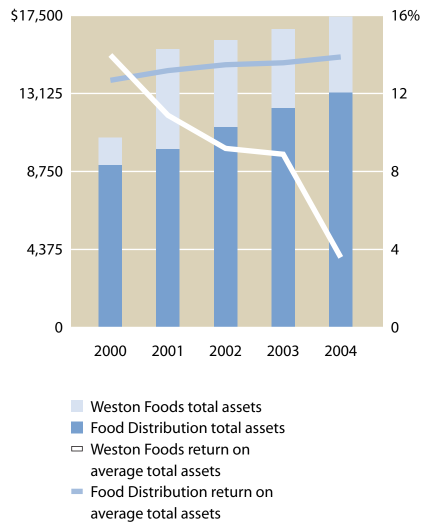
(1) 2004 includes restructuring and other charges of $119 (2003 – $35) (see note 2 to the consolidated financial statements).
(2) 2004 includes restructuring and other charges of $17 (2003 – $29) (see note 2 to the consolidated financial statements).
(3) See Supplementary Financial Information beginning on page 57.

Restructuring and Other Charges

($ millions)		2004		2003
Fixed assets	$	84	$	41
Restructuring and other exit costs		17		(6)
Intangible assets		18		
Restructuring and other charges	$	119	$	35

Core Segments Total Assets and Return on Average Total Assets[1]

($ millions)



(1) See Supplementary Financial Information beginning on page 57.

As a result of these initiatives and other distribution outsourcing and overhead reduction projects, Weston Foods recorded total restructuring charges of approximately $53 million. These charges consisted of $36 million of fixed asset write-downs and $17 million of employee severance and other exit related costs.

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 million 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 million over the next 12 to 18 months.

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 the 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 million non-cash pre-tax impairment charge was recognized in 2004 which was measured as the excess of the impaired assets carrying value over their 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 facility.

Also during 2004, Weston Foods completed its annual impairment assessment of its indefinite life intangible assets. As described in the Critical Accounting Estimates section of this MD&A, 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 the estimated fair value of the brand name, 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 million non-cash pre-tax impairment loss to reduce the carrying value of Weston Foods' *Entenmann's* brand name to estimated fair value. On a combined basis, the impairment charges related to the fresh-baked sweet goods category in the United States represented approximately 25% of the carrying value of the assets reviewed.

On September 27, 2004, Weston purchased all of the issued and outstanding common shares of Boulangerie Gadoua Ltée, a bakery business operated in Quebec, Canada, for $59 million consisting of cash consideration of $46 million, $6 million in Weston common shares issued from treasury and assumed debt of $7 million, 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 assets and liabilities at their fair values, including intangible assets of $27 million and goodwill of $21 million (see note 4 to the consolidated financial statements for further details). Operating results of Gadoua have been included in the Company's consolidated financial statements since September 27, 2004 and did not have a significant impact on Weston Foods results for 2004.

Weston Foods will continue to review additional opportunities for restructuring and cost reduction initiatives in 2005 in order to ensure that its long term competitive position remains strong. These initiatives are expected to require certain costs to be incurred in order to realize cost savings opportunities going forward. A return to operating income growth for 2005 is expected as the benefits of restructuring and cost reduction activities initiated during 2004 begin to be realized.

Food Distribution Operating Results

($ millions except where otherwise indicated)	2004	2003	Change
Sales	$ 26,209	$ 25,220	3.9%
Operating income (1)	$ 1,644	$ 1,458	12.8%
Operating margin	6.3%	5.8%	
EBITDA (1, 2)	$ 2,117	$ 1,851	14.4%
EBITDA margin	8.1%	7.3%	
Return on average total assets (2, 3)	13.9%	13.6%	

(1) 2004 includes restructuring and other charges of $17 (2003 – $29). See note 2 to the consolidated financial statements.

(2) See Supplementary Financial Information beginning on page 57.

(3) Certain prior year's information was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements.

Food Distribution enjoyed another strong year in 2004 with sales growth of 3.9% and operating income growth of 12.8%. These results were realized during a year of ongoing change in the Canadian retail environment, driven by the changing profile of the average consumer and the resulting response by Canadian retailers.

While low prices continue to be an important attribute for consumers, today's consumer is also more knowledgeable about products, more selective in buying patterns and more time-constrained than ever before. The overall result is an increased demand from retailers for value, choice and convenience. The continued focus on health, diet and food safety has increased the demand for products that offer healthy alternatives. As the hectic pace of life continues to accelerate, consumers look more to convenience in their shopping experience. Therefore, while offering competitive prices, retailers must also focus on convenience, innovative product and service offerings and positive customer experiences.

The Canadian grocery industry's response to this new age consumer has been a shift from traditional, conventional supermarket formats to discount stores, fresh format stores and large format stores. Unprecedented levels of capital investment over the past few years have resulted in increased retail square footage, and a broader choice of retail locations at which consumers can shop. Over the past several years, there has been an increase in the number of retail outlets that traditionally exclusively featured general merchandise or food items that now offer a selection of both, resulting in what is commonly referred to in the industry as "channel blurring". This evolution of the retail landscape presents a number of issues for traditional grocers: the need to re-position conventional supermarkets to either expand or, conversely, better focus their offerings; the reality of lower prices offered by the discount models and the obvious need to reduce operating and labour costs in order to maintain earnings in light of lower prices and increased competition.

Food Distribution has demonstrated its ability to anticipate these changes in the marketplace by strategically positioning discount models, market formats and larger combination stores under various banners across the country, focusing on pricing strategies and cost effectiveness initiatives, providing innovative solutions to lifestyle trends and working collaboratively with labour in order to maintain its commitment to offering the consumer value, choice and convenience.

Sales Sales increased 3.9% to $26.2 billion from $25.2 billion in 2003, including a 2% negative impact from the 53rd week in 2003. On a comparable 52-week basis, sales increased 5.9%. All regions across the country experienced sales growth, which gained momentum in the last two quarters of 2004.

The following factors explain the year-over-year change in sales:

- same-store sales growth of 1.5% including the impact of the repositioning being undertaken in certain markets where Loblaw holds relatively larger market shares; the launch of *The RCSS* banner in Ontario, Canada impacted same-store sales in that region by replacing mature stores that were previously included in same-store sales and by creating expectations of lower prices by consumers in other Loblaw stores located within the respective trading areas;
- national food price inflation which ranged from 1% to 2% in 2004;
- retail sales growth in general merchandise categories which continues to surpass that of food reflecting Loblaw's expansion in its breadth of offering; strong sales increases over the prior year were experienced in certain items such as barbecues, patio sets and small appliances;
- strong gas bar sales;
- an increase of 8% in net retail square footage related to the opening of 86 new corporate and franchise stores and the closure of 71 stores; the weighted average net retail square footage increased 6.4%, which is below the absolute increase due to the timing of store closures and openings;
- average annual sales per corporate store increased to $31 million in 2004 from $29 million in 2003 on a comparable 52-week basis reflecting the introduction of larger stores which are expected to become ultimately more productive;
- sales per average square foot of corporate stores of $592 in 2004 compared to $593 in 2003 on a comparable 52-week basis; new, larger stores introduced into the marketplace require time to mature, and as a result, have a negative short term impact on average sales per square foot; and
- an increase in control label penetration to 22.2% in 2004 from 21.7% in 2003.

In early 2004, Loblaw changed the basis on which it reports retail sales of control label products for internal purposes to exclude sales of products prepared exclusively for sale by Loblaw, but which do not bear any of Loblaw's trademarks. The new approach captures only those retail sales of products sold under trademarks which Loblaw owns or licenses. Under this new definition, the control label retail sales for 2004 amounted to $5.6 billion compared to $5.2 billion in 2003, restated from $5.6 billion reported in the prior year. Control label penetration, which is measured as control label retail sales as a percentage of Food Distribution's total retail sales, was 22.2% for 2004, compared to 21.7% in 2003, restated from the 24.2% reported in the prior year. Food Distribution introduced approximately 1,500 new control label products in 2004, including 1,100 new general merchandise products. Food Distribution's control label program, which includes *President's Choice*, *PC*, *President's Choice Organics*, *PC Mini Chefs*, *PC Blue Menu*, *no name*, *Club Pack*, *GREEN*, *EXACT*, *Teddy's Choice* and *Life@Home*, provides additional sales growth potential.

Food Distribution expects that the following initiatives, coupled with continued pricing investment where appropriate, will generate continued sales growth over the next few years:

- capital investment in its store network including the planned opening, expansion or renovation of more than 150 corporate and franchise stores across Canada;
- additional emphasis on food offerings of great quality and value;
- expansion of general merchandise offerings and continued improvement in the execution of its general merchandise program; and
- continued focus on control label products including the development of new products in strategic categories, such as *PC Mini Chefs* and *PC Blue Menu* product lines recently launched, increased marketing exposure and improved time to market.

Operating Income Food Distribution operating income increased $186 million, or 12.8%, to $1,644 million from $1,458 million in 2003. Operating margin improved to 6.3% from 5.8% in 2003. EBITDA margin improved to 8.1% from 7.3% in 2003.

The year-over-year increase in operating income was impacted by the following factors:

- gross margins in 2004 improved in comparison to 2003 mainly due to buying synergies;
- operating margins improved as a result of the continued focus on administrative cost control as well as the efficiencies resulting from improvements in supply chain operations, and from leveraging off a higher sales base; and
- *President's Choice Financial* services, which includes President's Choice Bank, a wholly owned subsidiary of Loblaw, contributed to the increase in operating income for the year; the income associated with the credit card portfolio and other financial offerings was partially offset by increased loyalty program and other operating expenses.

These results were achieved during a year in which a number of significant initiatives had been undertaken. The emphasis on improving Food Distribution's value proposition by becoming more price competitive pressured both sales and earnings.

It has been a long established practice of Food Distribution to pursue a strategy of enhancing profitability on a market-by-market basis using a multi-format approach. This strategy was further supported by the introduction of *The RCSS*, a large format combination store that originated in Western Canada, into Ontario, Canada. The rollout into Ontario, which began in 2003, continued during 2004 resulting in 13 stores being opened and operating in this region by year end.

The RCSS introduction to the Ontario market resulted in retail labour savings, which were somewhat offset by the short term impact of accelerated employee turnover in the existing store base and a reinvestment of those savings back into lower prices. Occupancy costs as a percentage of sales increased due to longer maturation time required for these new, larger stores, and fixed asset impairment and accelerated depreciation charges of $22 million (2003 – $4 million), mainly related to the repositioning of the Ontario banner portfolio with the addition of *The RCSS* banner, were absorbed in 2004. In 2003, operating income included a $25 million charge related to the voluntary early retirement offer accepted by the Ontario employees affected by *The RCSS* labour arrangement.

Food Distribution has well established discount formats that continue to contribute favourably to sales and operating results. In certain markets, discount format stores came under pressure because of the amount of this type of footage added to the market by Loblaw and its competitors during the past two years.

Initiatives associated with the transition of Food Distribution's supply chain to common national processes and systems continued in 2004. The flow of products to the stores continues to improve and Food Distribution has already begun to realize the positive impact of this improvement on operations and earnings.

Food Distribution expects operating income to grow at rates consistent with those of the past few years through:

- sales growth;
- cost reduction initiatives; and
- continued rollout of *President's Choice Financial* services and products.

Initiatives involving the optimization of Food Distribution's warehouse and distribution network, information systems and procurement functions and the consolidation of various merchandising, marketing, operating and procurement activities are expected to provide significant future opportunities. However, in the short term, these initiatives may require costs to be incurred which will be quantified over the next few months as options are assessed.

LIQUIDITY AND CAPITAL RESOURCES

Major Cash Flow Components

($ millions)	2004	2003 (1)	Change
Cash flows from operating activities of continuing operations	$ 1,576	$ 1,294	21.8%
Cash flows used in investing activities of continuing operations	$ (1,335)	$ (1,367)	n/a
Cash flows (used in) from financing activities of continuing operations	$ (87)	$ 138	n/a

n/a – change not relevant

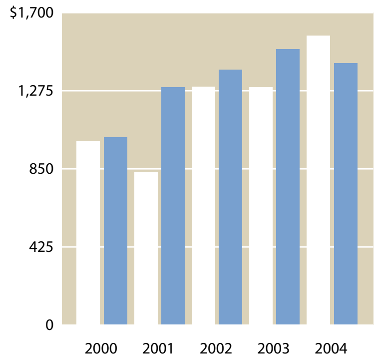
(1) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

Cash Flows from Operating Activities of Continuing Operations Cash flows from operating activities increased in 2004 to $1,576 million from $1,294 million in 2003. The increase over last year is primarily attributable to the improvement in the change in non-cash working capital, primarily from leveraging accounts payable and accrued liabilities combined with the Company's decrease in defined benefit pension plan contributions of $46 million primarily due to higher voluntary lump sum contributions made in 2003.

The Company's 2005 cash flows from operating activities are expected to increase at a rate consistent with net earnings growth and are expected to fund a large portion of the Company's anticipated 2005 funding requirements, including its planned capital investment activity of approximately $1.5 billion.

Cash Flows used in Investing Activities of Continuing Operations Cash flows used in investing activities in 2004 were $1.3 billion compared to $1.4 billion in 2003. During 2003, as a result of the significant strengthening of the Canadian dollar, the Company terminated currency derivatives that were identified as a hedge against its exposure to currency exchange rate fluctuations primarily resulting from the acquisition of George Weston Bakeries in 2001. Also in 2003, the Company terminated interest rate derivatives that were related to these currency derivatives. In respect of both transactions, the Company received, and included in cash flows used in investing activities, cash proceeds of $338 million ($317 million on termination of the currency derivatives and $21 million on termination of the interest rate derivatives), which were used to purchase common shares of Weston and repay short term debt (see notes 16 and 18 to the consolidated financial statements).

Cash Flows from Operating Activities and Capital Investment
($ millions)



Capital investment amounted to $1.4 billion (2003 – $1.5 billion), reflecting the Company's continuing commitment to maintain and renew its asset base and invest for growth across North America. Weston Foods' capital investment was $167 million (2003 – $231 million). The capital was directed toward the construction of a new plant, facility improvements and the upgrade of production lines and distribution assets. Weston Foods' capital investment benefited all of its operations to varying degrees and strengthened its processing and distribution capabilities. Food Distribution's capital investment amounted to $1.3 billion (2003 – $1.3 billion). Approximately 83% (2003 – 80%) of Food Distribution's capital investment was for new stores, renovations or expansions and the remaining 17% (2003 – 20%) was primarily directed toward its warehouse and distribution network, information systems and other infrastructure required to support store growth. Food Distribution's continued capital investment activity benefited all regions in varying degrees and strengthened its existing store base. Some of the new, larger stores replaced older, smaller, less efficient stores that did not offer the broad range of products and services demanded by today's consumer. In 2004, Food Distribution opened two new distribution centres in Vancouver and Quebec City, Canada that resulted in the closure of several smaller distribution centres. Food Distribution's 2004 corporate and franchised store capital investment program, which includes the impact of store openings and closures, resulted in an increase in net retail square footage of 8.0% over 2003. During 2004, 86 (2003 – 63) new corporate and franchised stores were opened and 82 (2003 – 87) underwent renovation or minor expansion. The 86 new stores, net of 71 (2003 – 61) store closures, added 3.4 million square feet of retail space (2003 – 1.9 million). The 2004 average corporate store size increased 6.1% to 53,600 square feet (2003 – 50,500) and the average franchised store size increased 6.6% to 26,000 square feet (2003 – 24,400).

The Company also generated $118 million from fixed asset sales, including proceeds of $44 million related to two sale-leaseback transactions involving two warehouses.

The Company expects to continue its capital investment pace in 2005. Capital investment in 2005 is estimated at $1.5 billion (approximately $200 million for Weston Foods and $1.3 billion for Food Distribution). Weston Foods' 2004 capital investment will focus on a new fresh bakery facility in the United States as well as streamlining production and distribution assets to be more efficient. Food Distribution plans to open, expand or renovate more than 150 corporate and franchised stores throughout Canada in a geographic investment pattern similar to that of 2004 and is expected to result in a net increase of approximately 3.0 million square feet, which should generate additional sales growth.

Cash Flows used in/from Financing Activities of Continuing Operations Cash flows used in financing activities were $87 million in 2004 compared to cash flows from financing activities of $138 million in 2003. The change in the year is due to issuing less debt in 2004 offset by the repurchase of less Weston common shares relative to 2003. The reduction in a portion of the United States dollar denominated cash, cash equivalents and short term investments, held by Loblaw, resulted in a corresponding decrease in a portion of Loblaw's outstanding cross currency basis swaps and in a minimal net earnings impact. During 2004, Weston and Loblaw completed the following financing activities:

- issued a total of $400 million of Medium Term Notes ("MTN");
- Weston issued $35 million of Series B Debentures;
- Weston repaid $200 million of Series A Debentures;

- Loblaw repaid $100 million of Series 1997 Provigo Inc. Debenture;
- Weston purchased for cancellation 587,200 of its common shares for $59 million, pursuant to its NCIB; and
- Loblaw purchased for cancellation 576,100 of its common shares for $35 million, pursuant to its NCIB.

During 2003, Weston and Loblaw completed the following financing activities:

- issued a total of $755 million of MTN;
- Weston issued $34 million of Series B Debentures;
- Loblaw repaid $100 million of MTN as they matured;
- Weston purchased for cancellation 852,100 of its common shares for $83 million, pursuant to its NCIB;
- Weston purchased for cancellation 2,013,092 of its common shares for $192 million pursuant to an offer received from Wittington Investments, Limited ("Wittington"), Weston's majority shareholder; and
- Loblaw purchased for cancellation 1,282,900 of its common shares for $76 million, pursuant to its NCIB.

See notes 4, 14 and 16 to the consolidated financial statements for the terms and details of the debt and share capital transactions.

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 believes that the market price of its common shares could be such that their purchase may be an attractive and appropriate use of funds in light of potential benefits to remaining shareholders. Weston intends, subject to appropriate approvals, to file a new base shelf prospectus for its MTN program in 2005.

Subsequent to year-end, Loblaw issued $300 million of 5.90% MTN due 2036 to refinance the $100 million of 6.35% Provigo Inc. Debenture which matured in the fourth quarter of 2004 and the $200 million of 6.95% Loblaw MTN which matured in the first quarter of 2005. Loblaw currently has $45 million of MTN capacity available to be issued pursuant to its 2003 Base Shelf Prospectus. Loblaw intends, subject to appropriate approvals, to file a new base shelf prospectus for its MTN program in 2005.

The following tables present the amounts of MTN available to issue under the Weston and Loblaw programs:

Weston Medium Term Notes Program

($ millions)	Base Shelf Prospectus dated May 16, 2003
MTN Issue Limit	$ 750
MTN issued in 2004 (1)	200
MTN capacity available, year end 2004	$ 550

(1) In 2003, an additional $100 of MTN was issued pursuant to a Base Shelf Prospectus dated October 4, 2001.

Loblaw Medium Term Notes Program

($ millions)	Base Shelf Prospectus dated May 12, 2003
MTN issue limit	$ 1,000
MTN issued in 2003 (1)	455
MTN issued in 2004	200
MTN capacity available, year end 2004	$ 345

(1) In 2003, an additional $200 of MTN was issued pursuant to a Base Shelf Prospectus dated May 24, 2001.
(2) Subsequent to year end 2004, an additional $300 of MTN was issued, resulting in the Company having $45 of MTN capacity available for issue.

Sources of Liquidity

The Company obtains its short term financing through a combination of cash generated from operating activities, cash, cash equivalents, short term investments, bank indebtedness and commercial paper programs. Weston's cash, cash equivalents and short term investments, as well as $269 million in uncommitted credit facilities and $300 million in committed credit facilities extended by several banks, support Weston's $500 million commercial paper program. Loblaw's cash, cash equivalents and short term investments, as well as $845 million in uncommitted operating lines of credit extended by several banks, support its $1.2 billion commercial paper program. Weston's and Loblaw's commercial paper borrowings generally mature less than three months from the date of issuance, although the term can be up to 364 days.

Securitization of credit card receivables provides PC Bank with an additional source of funds for the operation of its business. Under PC Bank's securitization program, a portion of the total interest in the credit card receivables is sold to an independent trust. PC Bank securitized $227 million (2003 – $202 million) of credit card receivables during 2004. Information on PC Bank's credit card receivables and securitization is provided in notes 9 and 18 to the consolidated financial statements and in the Off-Balance Sheet Arrangements section of this MD&A.

The Company obtains its long term financing primarily through MTN programs. The Company plans to refinance existing long term debt as it matures and may obtain additional long term financing for other operating uses or strategic reasons.

In the normal course of business, the Company enters into certain arrangements such as providing comfort letters to third party lenders in connection with financing activities of certain franchisees with no recourse liability to the Company. In addition, the Company establishes standby letters of credit used in connection with certain obligations related to the financing program for Loblaw's franchisees, securitization of PC Bank's credit card receivables, real estate transactions and benefit and insurance programs. At year end, the aggregate gross potential liability related to the Company's standby letters of credit was approximately $463 million (2003 – $391 million), against which the Company had $628 million (2003 – $606 million) in credit facilities available to draw on.

The Company has the following sources from which it can fund its 2005 cash requirements: cash, cash equivalents, short term investments, bank indebtedness, cash flows generated from operating activities, commercial paper programs, MTN programs and additional credit card receivable securitizations from future growth in the PC Bank credit card operations. In 2005, the Company anticipates no difficulty in obtaining external financing in view of its current credit ratings, its past experience in the capital markets and general market conditions.

Credit Ratings (Canadian standards)	Dominion Bond Rating Service ("DBRS")	Standard & Poor's ("S&P")
Commercial paper	R-1 (low)	A-1 (low)
Medium term notes	A (low)	A–
Exchangeable debentures	BBB (high)	
Preferred shares	Pfd-2 (low)	P-2
Other notes and debentures	A (low)	A–

The rating organizations listed above base their ratings on quantitative and qualitative considerations which are relevant for Weston. These ratings are intended to give an indication of the risk that Weston will not fulfill its obligations in a timely manner and do not take certain factors into account, such as market or pricing risk, since these must be considered by investors as factors in their investment process.

Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 31, 2004:

Summary of Contractual Obligations	Payments due by year						
($ millions)	2005	2006	2007	2008	2009	Thereafter	Total
Long term debt (including capital lease obligations)	$ 222	$ 328	$ 5	$ 392	$ 378	$5,003	$ 6,328
Operating leases (1)	215	195	172	151	130	663	1,526
Contracts for purchase of real property and capital investment projects (2)	336	13	8				357
Purchase obligations (3)	727	683	597	520	355	202	3,084
Total contractual obligations	$1,500	$1,219	$ 782	$1,063	$ 863	$5,868	$11,295

(1) Represents the minimum or base rents payable. Amounts are not offset by any expected sublease income.

(2) These obligations include agreements for the purchase of real property. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the transaction.

(3) These include material contractual obligations to purchase goods and services where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These amounts include certain contracts with variable price provisions. While estimates of anticipated financial commitments were made for the purpose of this disclosure, the amount of actual payments may vary.

Other contractual obligations not reflected in the table above are discussed below.

The purchase obligations presented in the above table do not include purchase orders issued in the ordinary course of business for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice with insignificant costs or liability to the Company. Also excluded are purchase obligations related to commodities for which an active, highly liquid market for resale exists. The Company believes such contracts do not have a material impact on its liquidity.

In connection with the purchase of Provigo, Loblaw committed to support Quebec small business and farming communities as follows: for a period of seven years commencing in 1999 and, 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 those of 1998. Loblaw has fulfilled its commitment in each year from 1999 to and including 2004.

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

- future payments of accrued benefit plans liability, principally post-retirement benefits, depend on when and if retirees submit claims;
- future payments of income taxes depend on the levels of taxable earnings and income tax rates;
- future payments of the share appreciation value on employee stock options depend on whether employees exercise their stock options, the market prices of Weston and Loblaw common shares on the exercise date and the manner in which they exercise those stock options;
- future payments of insurance claims can extend over several years and depend on the timing of anticipated settlements and results of litigation; and
- future payments relating to the settlement of the equity forward obligation based on 9.6 million Loblaw common shares which matures in 2031 (see note 18 to the consolidated financial statements) will depend on the market price of Loblaw common shares; further, the market value of the 9.6 million Loblaw common shares that Weston has used to secure this obligation exceeds the amount owing under the forward contract, and a portion of the proceeds from a future sale of these shares can be used to satisfy the obligation under this forward contract upon termination or maturity.

Off-Balance Sheet Arrangements

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

- 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 of which is approximately $104 million;
- guarantees;
- the securitization of a portion of PC Bank's credit card receivables through an independent trust;
- a standby letter of credit to an independent funding trust which provides loans to Loblaw's franchisees for their purchase of inventory and fixed assets; and
- financial derivative instruments in the form of interest rate swaps and an electricity forward contract.

Guarantees The Company has entered into various guarantee agreements, including standby letters of credit in relation to the securitization of PC Bank's credit card receivables and in relation to third party financing made available to the Company's franchisees and obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. For a detailed description of the Company's guarantees, see note 20 to the consolidated financial statements.

Securitization of Credit Card Receivables Loblaw, through its wholly owned subsidiary PC Bank, securitizes credit card receivables through an independent trust administered by a major Canadian bank. In these securitizations, PC Bank sells a portion of its credit card receivables to the trust in exchange for cash. The trust funds these purchases by issuing debt securities in the form of commercial paper to third party investors. The securitizations are accounted for as asset sales only when PC Bank transfers control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. All transactions between the trust and PC Bank have been, and are expected to continue to be, accounted for as sales as contemplated by Accounting Guideline ("AcG") 12, "Transfers of Receivables". As PC Bank does not control or exercise any measure of influence over the trust, the financial results of the trust have not been included in the Company's consolidated financial statements.

When Loblaw sells credit card receivables to the trust it no longer has access to the receivables but continues to maintain credit card customer account relationships and servicing responsibilities. Loblaw does not receive an explicit servicing fee from the trust for its servicing responsibilities. When a sale occurs, PC Bank may retain subordinated interests consisting of rights to future cash flows after obligations to the investors in the trust have been met and credit enhancement deposits in the form of a cash reserve account have been made, both of which are considered to be a retained interest. The trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported through a standby letter of credit provided by a major Canadian bank for 15% of the securitized amount. 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. The carrying value of the 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.

As at year-end 2004, the total amount of securitized credit card receivables outstanding which PC Bank continues to service was $785 million (2003 – $558 million) and the associated retained interests amounted to $12 million (2003 – $9 million). The standby letter of credit supporting these securitized receivables amounted to approximately $118 million (2003 – $84 million). During 2004, PC Bank received income of $83 million (2003 – $53 million) in securitization revenue from the independent trust relating to the securitized credit card receivables.

In the absence of securitization, Loblaw would be required to raise alternative financing by issuing debt or equity instruments. Further disclosure regarding this arrangement is provided in notes 9 and 20 to the consolidated financial statements.

Funding Trust Franchisees of Loblaw may obtain financing through a structure involving independent trusts that was created to provide loans to the franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These trusts are administered by a major Canadian bank. The independent funding trust within the structure finances its activities through the issuance of short term asset-backed notes to third party investors. The total amount of loans issued to Loblaw's franchisees outstanding as at year end 2004 was $394 million (2003 – $343 million). Based on a defined formula, Loblaw has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trust for approximately 10% of the principal amount of the loans outstanding at any given point in time, or $42 million (2003 – $35 million) as of year end 2004. This credit enhancement allows the independent funding trust to provide favourable financing terms to Loblaw's franchisees. 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. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. No amount has ever been drawn on the letter of credit. Loblaw is confident it would be able to fully recover from the franchisee any amounts it had reimbursed to the issuing bank. Neither the independent funding trust nor Loblaw can voluntarily terminate the agreement prior to December 2009, and only upon 6 months' prior notice following that date. Automatic termination of the agreement can only occur if specific, pre-determined events occur and are not cured within the time periods required. If the arrangement is terminated, the franchisees would be required to replace the loans provided by the independent funding trust with alternative financing. The Company is under no obligation to provide funding to franchisees under such circumstances.

In accordance with current accounting standards issued by the CICA, the financial statements of the independent funding trust are not consolidated with those of the Company.

The discussion in the Future Accounting Standards section of this MD&A includes a discussion concerning the possible application of AcG 15, "Consolidation of Variable Interest Entities" to the independent funding trust and to the independent trust through which credit card receivables are securitized.

Derivative Instruments The Company uses off-balance sheet financial derivative instruments to manage its exposure to changes in interest rates and in electricity prices in Ontario, Canada. For a detailed description of the Company's off-balance sheet derivative instruments and the related accounting policies, see notes 1 and 18 to the consolidated financial statements.

During 2004, Weston entered into interest rate swap contracts with a notional value of $200 million, which mature in 2014. These interest rate swaps were designated as a fair value hedge of the $200 million 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. Subsequent to year end, Weston terminated these interest rate swaps and the gain realized on the termination will be deferred over the remaining term of the initial hedge and recognized in interest expense and other financing charges.

QUARTERLY RESULTS OF OPERATIONS

The 52-week reporting cycle followed by the Company is divided into equal quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. When a fiscal year such as 2003 contains 53 weeks, the fourth quarter is 13 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

Quarterly Financial Information (1) (unaudited)

($ millions except where otherwise indicated)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	2004	$ 6,551	$ 6,915	$ 9,260	$ 7,072	$ 29,798
	2003	$ 6,355	$ 6,708	$ 8,721	$ 7,237	$ 29,021
Net earnings from continuing operations	2004	$ 125	$ 142	$ 185	$ 154	$ 606
	2003	$ 140	$ 193	$ 216	$ 258	$ 807
Net earnings (loss)	2004	$ 121	$ 140	$ 168	$ (1)	$ 428
	2003	$ 134	$ 193	$ 213	$ 252	$ 792
Net earnings from continuing operations per common share ($)						
Basic	2004	$ .91	$ 1.06	$ 1.37	$ 1.15	$ 4.49
	2003	$ 1.01	$ 1.42	$ 1.56	$ 1.92	$ 5.91
Diluted	2004	$ .91	$ 1.06	$ 1.37	$ 1.14	$ 4.48
	2003	$ 1.01	$ 1.42	$ 1.55	$ 1.91	$ 5.89
Net earnings (loss) per common share ($)						
Basic	2004	$ .88	$ 1.04	$ 1.24	$ (.05)	$ 3.11
	2003	$ .96	$ 1.42	$ 1.55	$ 1.87	$ 5.80
Diluted	2004	$ .88	$ 1.04	$ 1.24	$ (.06)	$ 3.10
	2003	$ .96	$ 1.42	$ 1.54	$ 1.86	$ 5.78

(1) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

Results by Quarter 2004 quarterly sales growth was impacted by various factors including Food Distribution sales and same-store sales growth and the impact of Weston Foods foreign currency translation. Sales for the fourth quarter of 2004 decreased 2.3% including an approximate 7.5% negative impact due to the 53rd week in 2003. Adjusting for the quarterly impacts of foreign currency translation, Weston Foods 2004 quarterly sales were impacted positively by volume increases as a result of the introduction of new products and the product mix shift to higher-priced premium products throughout the year as well as sales price increases that were more significant in the second half of 2004. During the fourth quarter of 2004, the incremental sales as a result of the acquisition of Gadoua positively impacted Weston Foods fourth quarter sales growth. Food Distribution 2004 sales growth, on an equivalent 52-week basis, gained momentum during the second half of the year with same-store sales growth reasonably consistent during the year, varying between 1.2% and 2.0%. Overall food price inflation during the first half of 2004 was nominal and included the effects of food price deflation in certain markets. Inflation trended upwards in the latter half of the year. Holidays such as Easter, Thanksgiving and Christmas impact the Company's sales volumes and have fallen within the same quarters year over year. In addition, Weston Foods is impacted by the timing of seasonal sales items such as pies, buns, rolls, Girl Scout cookies and ice cream cones and wafers. The sales timing of these seasonal items generally occur in the same quarters year over year.

2004 quarterly operating income was impacted by lower operating margins at Weston Foods due to the negative impact of higher ingredient, energy and employee related benefit costs, offset by sales price increases that were more significant in the second half of the year. Higher operating margins at Food Distribution due to cost control and operating efficiency improvements and buying synergies and fluctuations in the Company's stock-based compensation net of the impact of the related equity derivatives as a result of changes in the market price of Weston's and Loblaw's common shares impacted 2004 quarterly operating income. In addition, the third and fourth quarters of 2004 included charges for the impairment of fixed assets and intangible assets employed in the Weston Foods fresh-baked sweet goods category primarily sold under the *Entenmann's* brand name, restructuring and other exit costs associated with certain Weston Foods cost reduction initiatives as well as Food Distribution fixed asset impairment charges as a result of repositioning the Ontario, Canada banner portfolio. Operating income for the fourth quarter of 2003 included restructuring and exit costs in the Weston Foods operating segment and a charge from the voluntary early retirement offer accepted by employees in Ontario, Canada affected by *The RCSS* labour arrangement in the Food Distribution operating segment.

Interest expense and other financing charges incurred on a quarterly basis in 2004 over the prior year have generally been impacted by increases in average long term borrowing levels outstanding and lower positive impact of interest on financial derivative instruments as a result of Weston terminating its cross currency basis swaps and certain interest rate swaps in the third quarter of 2003. In addition, effective the third quarter of 2004, interest expense and other financing charges included a non-cash charge relating to the adoption of the new accounting standard which changes prospectively the accounting for Weston's 2001 forward sale agreement of Loblaw common shares.

The effective income tax rate for 2004 declined over last year primarily as a result of the 2% reduction in the Canadian federal statutory income tax rate and each quarter was also impacted by various factors, including the taxable income by jurisdiction as well as the income tax impact related to stock-based compensation and the associated equity derivatives. In addition, the income tax expense for the first quarter of 2004 included a reversal of $14 million due to Loblaw's successful resolution of certain income tax matters from a previous year. The income tax expense for the fourth quarter of 2003 included a reversal of $34 million related to the favourable resolution of an income tax issue previously accrued for by the Company and a $7 million charge for an adjustment to future income tax balances due to the increase in corporate income tax rates in Ontario, Canada.

Net earnings were impacted by the items described above as well as the negative impact from discontinuing the Fisheries segment including the impairment charge related to Fisheries assets held for sale.

Throughout fiscal 2004 and 2003 Weston purchased common shares for cancellation pursuant to its NCIB. The weighted average common shares outstanding has not been significantly impacted by these purchases.

Fourth Quarter Results

The Company's 2004 fourth quarter results of operations, financial condition and cash flows were affected as follows:

- Sales growth on a comparable 12-week basis of 5.2% was impacted positively by same-store growth of 1.4% and an increase of 1.2 million square feet in net retail space at Food Distribution and impacted negatively by 1% due to foreign currency translation in Weston Foods.
- Operating income included a $66 million charge related to the impairment of fixed assets and intangible assets within the Weston Foods *Entenmann's* operation in the United States and $9 million (2003 – $35 million) of restructuring and exit costs associated with certain cost reduction initiatives approved during the fourth quarter of 2004 in the Weston Foods operating segment (see note 2 to the consolidated financial statements).
- Operating income growth was impacted positively by approximately 2% due to lower stock-based compensation costs net of the impact of the related equity derivatives.
- Interest expense and other financing charges increased 110.3%, primarily as a result of the non-cash charge of $83 million due to the adoption of the new accounting standard which prospectively changed the accounting for Weston's 2001 forward sale agreement of Loblaw common shares.
- The effective income tax rate for the fourth quarter was relatively unchanged from the same period last year.

Further discussion and analysis on the fourth quarter results is provided in the Company's 2004 Preliminary Report to Shareholders.

OPERATING RISKS AND RISK MANAGEMENT

In the normal course of its business, the Company's reportable operating segments are exposed to operating risks that have the potential to negatively affect its financial performance. Each operating segment has insurance programs and its own operating and risk management strategies to help minimize these operating risks.

Industry The North American food industry is a changing and competitive market. Consumers' needs drive changes in the industry, which is impacted by changing demographic and economic trends such as changes in disposable income, increasing ethnic diversity, nutritional awareness and time availability. Over the past several years, consumers have demanded more value, choice and convenience. If the Company is ineffective in responding to these demands, its financial performance could be negatively impacted.

All operating segments evaluate the markets they operate in and will enter new markets and review potential acquisitions when opportunities arise, and will also exit a particular market and reallocate assets elsewhere when there is a strategic advantage to doing so. With any acquisition, there is inherent risk related to the Company's ability to integrate the acquired business and to achieve the anticipated operating improvements. Weston Foods' strategy to operate on a North American scale allows it to effectively manage and minimize its exposure to industry risk.

Food Distribution pursues a strategy of enhancing profitability on a market-by-market basis by using a multi-format approach. By operating across Canada through corporate stores, franchised stores and associated stores and by servicing independent accounts, Food Distribution strategically minimizes and balances its exposure to industry risk.

Competitive The Company reviews and monitors operating plans and results including market share in its reportable operating segments. When necessary, the segments will modify their operating strategies including relocating production facilities or stores, reviewing pricing and adjusting product offerings, brand positioning and/or marketing programs to take into account competitive activity. A significant competitive advantage the Company has developed is its brands. All segments focus on brand development and building upon their core brand equity.

Weston Foods' brands provide it with a strategic advantage over its competitors. Its premium and popular brands provide Weston Foods with strong core brands and product lines that enhance consumer loyalty, trusted as they are for quality, great taste and freshness. As a result of the difficult sales environment being experienced by United States traditional food retailers, coupled with the continuing cost pressures being experienced by the industry, Weston Foods anticipates that competitive business restructuring will continue in 2005. Although the outcome and the impact, if any, on the Company's consolidated financial results from this anticipated restructuring is uncertain, Weston Foods will closely monitor the United States food retail market and, if required, adjust its strategies and programs as necessary.

Food Distribution's control label program enhances customer loyalty by offering superior value and provides some protection against national brand pricing strategies. Food Distribution faces increasing competition from many types of non-traditional competitors, such as mass merchandisers, warehouse clubs, drug stores, limited assortment stores, convenience stores and specialty stores, all of which continue to increase their offerings of products typically associated with traditional supermarkets. In order to compete effectively and efficiently, Food Distribution is developing and operating new departments and services that complement the traditional supermarket layout, as well as enhancing its product and service offerings. Food Distribution is also subject to competitive pressures from new entrants into the marketplace and from the potential consolidation of existing competitors. These new entrants may have extensive resources which will allow them to compete effectively with Food Distribution in the long term.

In order to remain competitive by having an optimal cost structure, the Company continuously evaluates and implements various cost saving initiatives. The Company may not always achieve the expected cost savings and other benefits of the initiatives. Accordingly, the Company's competitive position and financial results could be negatively impacted.

Increased competition could affect the Company's ability to achieve its objectives. The Company's inability to compete effectively with its current or any future competitors could result in, among other things, lessening of market share and lower pricing in response to competitors' pricing activities.

Food Safety The Company is subject to potential liabilities connected with its business operations, including potential exposures associated with product defects, food safety and product handling. Such liabilities may arise in relation to the manufacturing, preparation, storage, distribution and display of products and, with respect to Food Distribution's control label products, in relation to the production, packaging and design of products. The occurrence of an event giving rise to such a liability could have a material impact on the Company's financial performance and results.

A majority of the Company's sales are generated from food products and the Company could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect the Company's financial performance. Procedures are in place to manage food crises, should they occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, the Company has food safety procedures and programs which address safe food handling and preparation standards. The Company employs best practices for storage and distribution of food products and is intensifying the campaign for consumer awareness on safe food handling and consumption.

Labour A significant portion of the Company's workforce is unionized. Renegotiating collective agreements might result in work stoppages or slowdowns, which could materially affect the Company's financial performance, depending on their nature and duration. The Company is willing to accept the short term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term. Significant labour negotiations took place across the Company in 2004 as 113 collective agreements expired and another 117 collective agreements were successfully negotiated which represented a combination of agreements expiring in 2004 and those carried over from prior years. Food Distribution experienced a labour disruption at four *Provigo* stores in Quebec, Canada, which was settled after 28 weeks, resulting in a six year collective agreement. In 2005, 77 collective agreements affecting approximately 7,400 employees will expire, with the single largest agreement covering approximately 1,600 employees. The Company will also continue to negotiate the 50 collective agreements carried over from 2002 to 2004 and anticipates no labour disruption with respect to these negotiations. The Company has good relations with its employees and unions and, although it is possible, does not anticipate any unusual difficulties in renegotiating agreements.

Several of the Company's competitors operate in a non-union environment. These competitors may benefit from lower labour costs, making it more difficult for the Company to compete.

Commodity Prices Weston Foods operating results are directly impacted by fluctuations in the price of commodities such as wheat, flour, sugar, vegetable oil and cocoa. Increases in prices of these commodities could continue to adversely affect the Company's financial performance. In order to minimize the effect of these fluctuations on current operating results and to lessen the resulting uncertainty of future financial results, the Company hedges a portion of its anticipated commodity purchases to help mitigate the impact of its exposure to fluctuations in commodity prices. As at year end 2004, Weston Foods had entered into commodity future contracts, which mitigate price fluctuations on some commodities for approximately 6 months, on average, into 2005.

Third Party Service Providers Certain aspects of the Company's operations are provided by third parties. While appropriate contractual arrangements are put in place with these third parties, the Company has no direct influence over how such third parties are managed. It is possible that negative events affecting these third parties could in turn negatively impact the Company's operations and its financial performance.

In addition, certain of Weston Foods' products and Food Distribution's control label products, which are among the most recognized brands in Canada, are manufactured under contract by third party vendors, and in order to preserve the brands' equity, these vendors are held to high standards of quality. Food Distribution also uses third party logistics services including those in connection with a dedicated distribution centre in Pickering, Ontario and third party common carriers. Any disruption in these services could interrupt the delivery of merchandise to the stores and therefore could negatively impact sales.

President's Choice Financial banking services are provided by Amicus Bank, a member of the CIBC group of companies. PC Bank uses third party service providers to process credit card transactions, operate call centres and monitor credit and fraud for the *President's Choice Financial* MasterCard. In order to minimize operating risk, PC Bank and Loblaw actively manage and monitor their relationship with all third party service providers. PC Bank has developed a vendor management policy, approved by its Board of Directors, and provides its Board with regular reports on vendor management and risk assessment. *PC Financial* insurance products are provided by companies within the Aviva Canada group, the Canadian subsidiary of a major international property and casualty insurance provider.

Pension Contributions While the Company's registered funded defined benefit pension plans are currently adequately funded and returns on defined benefit pension plan assets are in line with expectations, there is no assurance that this will continue. An extended period of depressed capital markets and low interest rates could require the Company to make significant contributions to its registered funded defined benefit pension plans, which in turn could have a material effect on its financial performance.

The poor performance of financial markets in recent years combined with interest rates at 40 year lows have negatively impacted the funding of the Company's registered funded defined benefit pension plans in recent years. During 2004, the Company contributed $85 million (2003 – $131 million) to its registered funded defined benefit pension plans including a voluntary lump sum contribution amounting to $37 million (2003 – $64 million). During 2005, the Company expects to contribute approximately $100 million to these plans.

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits in which approximately 41% (2003 – 41%) of employees of the Company and of its franchisees participate. The administration of these plans and the investment of their assets are legally controlled by a board of independent trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company may have a representative on the board of trustees of these multi-employer pension plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements. Pension cost for these plans is recognized as contributions are paid.

Real Estate The availability and conditions affecting the acquisition and development of real estate properties may impact Food Distribution's ability to execute its planned real estate program on schedule and therefore, its ability to achieve its sales targets. As Food Distribution expands its general merchandise offering, on-time execution of the real estate program becomes increasingly important due to significantly longer lead times required for ordering this merchandise. Food Distribution maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances Food Distribution's operating flexibility by allowing it to introduce new departments and services that could be precluded under operating leases. At year end 2004, Food Distribution owned 70% (2003 – 67%) of its corporate store square footage.

Seasonality The Company's operations as they relate to food, specifically inventory levels, sales volumes and product mix, are impacted to some degree by certain holiday periods throughout the year. Each of the Company's reportable operating segments continuously monitors the impact holidays may have on their operations and adjusts inventory levels and production and delivery schedules as required. As Food Distribution expands its general merchandise offering, it may increase the number of seasonal products offered and, therefore, its operations may be subject to more seasonal fluctuations.

Leadership Development and Employee Retention Effective leadership is essential to sustaining the growth and success of the Company. The Company continues to focus on the development of leaders at all levels and across all regions, by executing tailored leadership development programs that provide the knowledge and skills necessary to drive positive change and ensure effective execution. The degree to which the Company is effective in developing its leaders and retaining key employees could affect its ability to execute its strategies, efficiently run its operations and meet its goals for financial performance.

Food Distribution is scheduled to open a new office facility in Brampton, Ontario in the third quarter of 2005 which will allow for the combination of several administrative and operating offices from across southern Ontario. In addition, in 2005, Food Distribution's internal reorganizations involving the merchandising, procurement and operations groups will take effect, including the transfer of the general merchandise operations from Calgary, Alberta to the new office facility. These initiatives may result in some short term employee turnover and disruption as certain employees may assume new roles and responsibilities.

Utility and Fuel Prices The Company is a significant consumer of electricity, other utilities and fuel. Unanticipated cost increases in these items could affect the Company's financial performance. In 2002, the government of Ontario, Canada deregulated the electricity market in that province. In order to minimize the risk of higher electricity prices, the Company entered into a three year initial term electricity forward contract, which expires in May 2005. This contract maintains a portion of the Company's electricity costs at approximately 2001 rates. In light of the pending expiry of the electricity forward contract, the Company is presently reviewing alternate arrangements under current market conditions.

Insurance The Company effectively limits its exposure to risk through a combination of appropriate levels of self-insurance and the purchase of various insurance coverages, including an integrated insurance program. The Company's insurance program is based on various lines and limits of coverage which provide the appropriate level of retained and insured risks. Insurance is arranged on a multi-year basis with reliable, financially stable insurance companies as rated by A.M. Best Company, Inc. The Company combines comprehensive risk management programs and the active management of claims handling and litigation processes by using internal professionals and external technical expertise to reduce and manage the risk it retains.

Environmental, Health and Safety The Company has effective environmental programs in place and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, the Company employs environmental risk assessments and audits using internal and external resources together with effective employee awareness programs throughout its operating locations.

The Company endeavours to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with environmental stewardship and ecological considerations. Environmental protection requirements do not and are not expected to have a material effect on the Company's financial performance. The Company also has a health and safety program designed to address health and wellness, workplace safety and compliance with internal and regulatory guidelines for workplace health and safety.

The Environmental, Health and Safety Committee of the Board receives regular reporting from management addressing current and potential future issues identifying new legislative concerns and related communication efforts.

Legal, Tax and Accounting Changes to any of the laws, rules, regulations or policies related to the Company's business, including the production, processing, preparation, distribution, packaging and labelling of its products could have a significant impact on its financial and operational performance. In the course of complying with such changes, the Company may incur significant costs. Failure by the Company to fully comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which may have a material adverse effect on the Company's financial performance. There can be no assurance that the tax laws and regulations in the jurisdictions affecting the Company will not be changed in a manner which could adversely affect the Company. New accounting pronouncements introduced by the appropriate authoritative bodies may also impact the Company's financial performance.

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

FINANCIAL RISKS AND RISK MANAGEMENT

In the normal course of its business, the Company is exposed to financial risks that have the potential to negatively affect its financial performance. The financial risks relate to changes in interest rates, foreign currency exchange rates, the market prices of Weston and Loblaw common shares and electricity prices in Ontario, Canada. The Company is also exposed to credit and counterparty risks on certain of its financial instruments. These risks and the actions taken to minimize them are discussed below.

Derivative Instruments The Company uses over-the-counter derivative financial instruments, specifically cross currency basis swaps, interest rate swaps, equity forwards and equity swaps, to minimize the risks and costs associated with its financing activities and its stock-based compensation plans. The Company has also entered into an electricity forward contract to partially offset electricity price volatility in Ontario, Canada. The Company maintains treasury centres that operate under policies and guidelines approved by the Board, covering funding, investing, equity, foreign currency exchange and interest rate management. The Company's policies and guidelines prevent it from using any derivative instrument for trading or speculative purposes. See notes 1 and 18 to the consolidated financial statements for additional information on the Company's derivative instruments.

Foreign Currency Exchange Rate The Company enters into currency derivative agreements to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates. Loblaw's cross currency basis swaps are transactions in which floating interest payments and principal in United States dollars are exchanged against the receipt of floating interest payments and principal in Canadian dollars. These cross currency basis swaps limit Loblaw's exposure to foreign currency exchange rate fluctuations on a portion of its United States dollar denominated assets, principally cash, cash equivalents and short term investments.

During 2003, as a result of the significant strengthening of the Canadian dollar, Weston terminated cross currency basis swaps that previously limited its exposure to foreign currency exchange rate fluctuations on its U.S. net investment. As a result, foreign currency exchange rate adjustments on the translation of Weston's U.S. net investment that are recognized within the cumulative foreign currency translation adjustment included in shareholders' equity will no longer be offset. Weston continues to monitor its current and anticipated exposure to fluctuations in foreign currency exchange rates, specifically those related to its U.S. net investment, and may consider entering into currency derivative agreements as appropriate to manage this exposure.

Interest Rate The Company enters into interest rate derivative agreements to manage its current and anticipated exposure to fluctuations in interest rates and market liquidity. Interest rate swaps are transactions in which the Company exchanges interest flows with a counterparty on a specified notional amount for a predetermined period based on agreed-upon fixed and floating interest rates. Notional amounts are not exchanged. The Company monitors market conditions and the impact of interest rate fluctuations on its fixed and floating interest rate exposure mix on an ongoing basis.

Common Stock Market Price The Company enters into equity derivative agreements to manage its current and anticipated exposure to fluctuations in its stock-based compensation cost as a result of changes in the market prices of Weston and Loblaw common shares. These equity derivative agreements change in value as the market price of the underlying common shares changes, which effectively results in a partial offset to fluctuations in the Company's stock-based compensation cost. The partial offset between the Company's stock-based compensation costs and the equity derivatives is effective as long as the market prices of Weston and Loblaw common shares exceed the exercise price of the related employee stock options. The fair value of Weston's equity forward sale agreement based on 9.6 million Loblaw common shares is based on fluctuations in the market price of Loblaw common 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.

Electricity Prices The Company entered into an electricity forward contract to minimize volatility in the price of electricity in Ontario, Canada. The forward contract changes in value as the price of electricity changes, has an initial term of three years and expires in May 2005. In light of the pending expiry, the Company is presently reviewing alternate arrangements under current market conditions.

Counterparty Over-the-counter derivative financial instruments are subject to counterparty risk. Counterparty risk arises from the possibility that market changes may affect a counterparty's position unfavourably and that the counterparty defaults on its obligation to the Company. The Company has sought to minimize potential counterparty risk and losses by implementing a policy that allows such transactions only with counterparties that have, at a minimum, a long term A rating by S&P, DBRS or equivalent from another recognized credit rating agency, placing risk adjusted limits on its exposure to any single counterparty and having master netting agreements with its counterparties. These netting agreements mitigate counterparty risk to the extent that unfavourable contracts with the same counterparty can be legally netted against the settlement of favourable contracts.

Credit 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 relates to PC Bank's credit card receivables. PC Bank manages the *President's Choice Financial* MasterCard. PC Bank grants credit to its customers on the *President's Choice Financial* MasterCard with the intention of increasing the loyalty of Food Distribution customers and Food Distribution profitability. Credit risk results from the potential for loss due to those customers defaulting on their payment obligations. In order to minimize the associated credit risk, PC Bank employs stringent credit scoring techniques, actively monitors its credit card portfolio and reviews techniques and technology that can improve the effectiveness of its collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers. Food Distribution also has accounts receivable from its franchisees, associates and independent accounts, mainly as a result of sales to these customers. Food Distribution actively monitors the balances on an ongoing basis and collects funds from its franchisees on a weekly basis in accordance with terms specified in the applicable agreements.

RELATED PARTY TRANSACTIONS

Weston's majority shareholder, Wittington, and its affiliates are related parties. Weston, in the normal course of business, has routine transactions with these related parties, including the rental of office space at market rates from Wittington. Rental payments amounted to approximately $4 million in 2004 as well as a one time payment of $8 million for a property designated for future development. It is Weston's policy to conduct all transactions and settle balances with related parties on normal trade terms. For a detailed description of the Company's related party transactions, see note 21 to the consolidated financial statements.

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.

In 2003 Weston purchased for cancellation 2,013,092 of its common shares (representing approximately 1.5% of Weston's outstanding common shares) at an agreed price of $95.58 per common share pursuant to an offer received from Wittington, thereby reducing Wittington's beneficial ownership to 62%. The agreed upon price of $95.58 was equal to the lesser of 96% of the volume weighted average price for Weston'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 and was subject to the price not being less than $95 per common share. Weston and the 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 has obtained an exemption from the issuer bid rules in connection with this purchase from the Ontario Securities Commission.

CRITICAL ACCOUNTING ESTIMATES

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

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

Valuation of Inventories Food Distribution retail inventories are stated at the lower of cost and estimated net realizable value less normal gross profit margin. Food Distribution is required to make significant estimation or judgment in the determination of (i) discount factors used to convert inventory to cost after physical count at retail has been completed and (ii) estimated inventory losses, or shrinkage, occurring between the last physical inventory count and the balance sheet date.

Inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is determined at a department level, is calculated in relation to historical gross margins and is reviewed on a regular basis for reasonableness. As Food Distribution continues to expand its general merchandise offerings, the mix of product within certain departments and historical gross margins may change and the resulting discount factors may be adjusted accordingly.

Inventory shrinkage, which is calculated as a percentage of sales, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet date. To the extent that actual losses experienced vary from those estimated, both inventories and operating income may be materially impacted.

Changes or differences in these estimates may result in changes to inventories on the consolidated balance sheet and a charge or credit to operating income in the consolidated statement of earnings.

Employee Future Benefits The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans are accrued based on actuarial valuations which are dependent on assumptions determined by management. These assumptions include the expected long term rate of return on plan assets, the rate of compensation increase, retirement ages, mortality rates, the expected growth rate of the health care costs and the discount rate. These assumptions are reviewed annually by management and the Company's actuaries.

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

The discount rate is based on market interest rates, as at the Company's measurement date of September 30 on a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations. The discount rates used to determine the 2004 net cost for defined benefit pension and other benefit plans were 6.3% and 6.1% respectively on a weighted average basis, compared to 6.6% and 6.4% respectively in 2003. The discount rates used to determine the net 2005 defined benefit pension and other benefit plans cost remained relatively unchanged from 2004 and as a result, the Company does not expect a significant impact on this cost in 2005.

The expected long term rate of return on plan assets is based on historical returns, on the asset mix and on the active management of its defined benefit pension plan assets. The Company's defined benefit pension plan assets had a 10 year annualized return of 9.0% in 2004 as at the measurement date. The actual annual returns per annum within this 10 year period varied with market conditions. Consistent with 2003 and 2004, the Company has assumed an 8.0% expected long term rate of return on plan assets for use in calculating its defined benefit pension plans cost for 2005.

The expected growth rate in health care costs for 2004 was based on external data and the Company's historical trends for health care costs, and was relatively consistent with that of 2003.

Since the three key assumptions discussed above are forward-looking and long term in nature, they are subject to uncertainty and actual results may differ. Differences between actual experience and the assumptions and changes in the assumptions could have a material impact on the accrued benefit plan asset and liability presented in the consolidated balance sheet and the defined benefit pension and other benefit plans cost recognized in the consolidated statement of earnings.

In accordance with GAAP, the difference between actual results and assumptions are accumulated in net actuarial gain or loss. The magnitude of any immediate impact to the Company's operating income is mitigated by the fact that 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 plan assets at the beginning of the year is amortized on a straight-line basis over the expected average remaining service period of the active employees. As at September 30, 2004, the unamortized net actuarial loss was $283 million (2003 – $290 million) for defined benefit pension plans and $119 million (2003 – $137 million) for other benefit plans.

Additional information regarding the accounting for the Company's pension and other benefit plans, including a sensitivity analysis for changes in key assumptions, is provided in note 13 to the consolidated financial statements and the Pension Contributions discussion in the Operating Risks and Risk Management section of this MD&A.

Goodwill and Indefinite Life Intangible Assets Goodwill is not amortized and is assessed for impairment at the reporting unit level at least annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment would have to be undertaken. A goodwill impairment loss would be recognized to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value. Fair value of goodwill is estimated in the same manner as goodwill is determined at the date of acquisition in a business acquisition, that is, the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

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

Intangible assets with indefinite lives, primarily consisting of Weston Foods' trademarks and brand names, are assessed for impairment at least annually. Any potential intangible asset impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. If the fair value of the intangible asset exceeds its carrying value, the intangible asset is not considered to be impaired. If the carrying value of the intangible asset exceeds its fair value, impairment is identified as the difference between the fair value and the carrying value and will result in a reduction in the carrying value of the intangible assets on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

The Company determines the fair value of its trademarks and brand names by using the "Relief from Royalty Method", a discounted cash flow model. The process of determining the fair values requires management to make assumptions of a long term nature regarding projected future sales, terminal growth rates, royalty rates and discount rates. Projected future sales are consistent with strategic plans presented to Weston's Board and discount rates are based on an industry after-tax cost of equity. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

During the fourth quarter of 2004, the Company performed the annual goodwill and indefinite life intangible assets impairment tests and determined that there was no impairment to the carrying value of the goodwill or indefinite life intangible assets except for the *Entenmann's* brand name (see notes 2 and 11 to the consolidated financial statements) and the Fisheries goodwill and intangible assets (see note 7 to the consolidated financial statements).

Income Taxes Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and future income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment regarding the financial statement carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results and the timing of reversal of temporary differences and possible audits of tax filings by the regulatory authorities. Management believes it has adequately provided for income taxes based on current available information.

On an ongoing basis, future income tax assets are reviewed to determine if a valuation allowance is required and if it is deemed more likely than not that the future income tax assets will not be realized based on taxable income projections, a valuation allowance is recorded. As at December 31, 2004, total valuation allowances amounted to $54 million.

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

Fixed Assets Fixed assets to be held and used 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 disposition. An impairment loss is measured as the amount by which the fixed assets carrying value exceeds the fair value. As discussed in note 2 to the consolidated financial statements, the Company reviewed certain fixed assets for impairment in the Weston Foods and Food Distribution operating segments due to circumstances that indicated that their carrying values may not be recovered. The Company made assumptions about the sum of the undiscounted cash flows of certain fixed assets and determined they were less than their carrying value resulting in the recognition of an impairment loss. The Company uses its internal plans in estimating future cash flows. These plans reflect the Company's best estimate but may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

ACCOUNTING STANDARDS IMPLEMENTED IN 2004

Effective January 1, 2004, the Company implemented the new accounting standards concerning long-lived assets, derivative instruments and asset retirement obligations issued by the CICA as discussed below:

- Section 3063, "Impairment of Long-lived Assets", 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 in 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 respective net cash flows from the stores they service. An impairment in the store network serviced by the distribution centre would indicate an impairment in the distribution centre assets as well. If Weston's manufacturing assets or Loblaw's store or distribution centre 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 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 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 to the consolidated financial statements).

- Accounting guideline ("AcG") 13, "Hedging Relationships", 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 investment; 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. During 2004, Weston entered into interest rate swaps designated as a fair value hedge of the $200 million of 5.05% MTN due 2014. Effectiveness tests are performed to evaluate the hedge effectiveness at inception and on an ongoing basis, both retrospectively and prospectively.

  Hedging relationships that ceased to be eligible for hedge accounting under AcG 13 were discontinued as of January 1, 2004 except for Weston's forward sale agreement for 9.6 million Loblaw common 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 resulting 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 will be recognized in interest expense and other financing charges prospectively.

  Effective 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, "Exchangeable Debentures". 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 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 million, 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.

  The accounting policies of the Company concerning derivative instruments are included in note 1 to the consolidated financial statements.

- Section 3110, "Asset Retirement Obligations", establishes standards for the recognition, measurement and disclosure of legal obligations associated with the cost 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 million (net of future income taxes recoverable of $5 million and minority interest of $1 million), an increase in fixed assets of $3 million and an increase in other liabilities of $17 million. The impact on net earnings for each of 2003 and 2004 was not material.

In 2004, subsequent to the implementation of the aforementioned accounting standards, the CICA issued the following new accounting standards:

- EIC Abstract 144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("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 reimbursements of selling costs incurred to promote the vendor's products, provided that certain conditions are met. EIC 144 requires retroactive application to all financial statements for annual and interim periods ending after August 15, 2004. Accordingly, in the third quarter of 2004, the Company implemented EIC 144 retroactively with restatement of the comparative periods for the current and the prior year.

  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 million (net of current future income taxes recoverable of $11 million and minority interest of $14 million), a decrease to inventories of $32 million and an increase in accounts payable and accrued liabilities of $17 million. Current and prior annual and quarterly net earnings were not materially impacted.

- Section 3461, "Employee Future Benefits", was amended 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 notes 1 and 13 to the consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

The Company closely monitors new accounting pronouncements and changes in current accounting standards to assess the impact, if any, on its consolidated financial statements. In 2005, the Company will be required to implement the following pronouncements issued by the CICA:

- AcG 15, "Consolidation of Variable Interest Entities", provides guidance for applying consolidation principles to entities that are subject to control on a basis other than ownership through voting interests. AcG 15 requires that a variable interest entity ("VIE") be consolidated by the Company if it is exposed to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The Company has reviewed a number of entities that are VIEs to determine whether they will require consolidation by the Company commencing in the first quarter of fiscal 2005. Loblaw has entered into a warehousing and distribution arrangement with a third party. Under the terms of this arrangement, it has been determined that Loblaw is the primary beneficiary of this VIE and accordingly it will be consolidated by the Company. The consolidation is not expected to materially impact the results of operations of the Company. In addition, approximately 125 of Loblaw's independent franchisees are currently under review to determine whether they are VIEs that will require consolidation. To the extent that certain of these franchisees have incurred operating losses in excess of the allowance for doubtful accounts previously recorded, a cumulative adjustment to opening retained earnings will be recorded upon implementation. The consolidation of these entities will not have an effect on the underlying risks to the Company. The independent trust which provides financing loans to Loblaw's independent franchisees had been previously identified as a VIE. During the fourth quarter of 2004, structural changes were made and under the new structure, the Company believes that consolidation of the independent trust by the Company will not be required under the existing accounting standards. In addition, the independent trust used to securitize credit card receivables for PC Bank was identified as a VIE. It was determined that the Company was not the primary beneficiary and therefore the Company believes that consolidation of this trust by the Company will not be required.

  The Company will implement AcG15 in the first quarter of fiscal 2005 on a prospective basis.

- EIC Abstract 150, “Determining Whether an Arrangement Contains a Lease”, addresses arrangements comprising a transaction or a series of transactions that do not take the legal form of a lease but convey a right to use a tangible asset in return for a payment or a series of payments. This EIC provides guidance for determining whether these types of arrangements contain a lease within the scope of CICA 3065 “Leases” and should be accounted for accordingly. The assessment should be based on whether the fulfillment of the arrangement is dependent on the use of specific tangible assets and whether the arrangement conveys the right to control the use of the tangible assets. This assessment should be made at inception of the arrangement and only reassessed if certain conditions are met. This EIC is effective for arrangements entered into or modified as of the beginning of the first quarter of 2005.
- Section 3500 “Earnings per Share” exposure draft addresses amendments to the current guidance with respect to calculating the number of incremental shares included in diluted shares when applying the treasury stock method and the elimination of the current provisions that allow an entity to rebut the assumption based on past experience or stated policy, that contracts with the option of settling in either cash or common shares, at the issuer’s option, will be settled in common shares, if the share settlement is more dilutive. In addition, guidance is provided for shares issued upon conversion of a mandatory convertible instrument to be included in the weighted average number of common shares outstanding when computing the basic net earnings per share from the date that the conversion becomes mandatory. These revisions are expected to be effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2005.
- Section 1506, “Changes in Accounting Policies and Estimates and Errors” exposure draft proposes to replace the current guidance in “Accounting Changes”. The revisions would permit an entity to change an accounting policy pursuant to a requirement by a primary source of generally accepted accounting principles or when the change will result in a reliable and more relevant presentation. In addition, an entity is required to disclose information with respect to new primary sources of generally accepted accounting principles that have been issued but not yet come into effect and have not yet been adopted by the entity. The effective date is expected to be fiscal years beginning on or after January 1, 2005.

OUTLOOK

In the year ahead Loblaw will look to reach several new important milestones. This will include the combination of several administrative and operating offices into a new facility, internal reorganizations involving the merchandising, procurement and operations groups and the continued assessment of the supply chain network. These initiatives are expected to provide significant future opportunities for Loblaw but may, in the interim, require costs to be incurred which will be quantified over the next several months as options are assessed. Loblaw continues to follow its well established strategies to ensure its long term growth and expects continued good sales and net earnings growth in 2005.

Weston Foods will continue to review additional opportunities for restructuring and cost reduction initiatives in 2005. These initiatives will require costs to be incurred in order to realize cost savings opportunities going forward. Cash flow generation is anticipated to remain strong and a return to operational earnings growth for 2005 is expected as the benefits from restructuring and cost reduction activities initiated during 2004 begin to be realized.

SUPPLEMENTARY FINANCIAL INFORMATION

The Company reports its financial results in accordance with Canadian GAAP. However, the Company has included certain non-GAAP financial measures and ratios which it believes provide useful information to both management and readers of this Annual Report in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other earnings measures determined in accordance with Canadian GAAP.

EBITDA The Company believes EBITDA is useful as an indicator of its operational performance and its ability to generate cash flows to fund its cash requirements, including the Company’s capital investment program.

The following tables reconcile EBITDA to Canadian GAAP measures reported in the consolidated statements of earnings:

2004

($ millions)	Weston Foods(1)	Food Distribution(1)	Consolidated
Operating income	$ 138	$ 1,644	$ 1,782
Depreciation and amortization	147	473	620
EBITDA	$ 285	$ 2,117	$ 2,402

2003(2)

($ millions)	Weston Foods(1)	Food Distribution(1)	Consolidated
Operating income	$ 374	$ 1,458	$ 1,832
Depreciation and amortization	144	393	537
EBITDA	$ 518	$ 1,851	$ 2,369

2002(2)

($ millions)	Weston Foods	Food Distribution	Consolidated
Operating income	$ 409	$ 1,295	$ 1,704
Depreciation and amortization	144	354	498
EBITDA	$ 553	$ 1,649	$ 2,202

(1) Operating income for 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 to the consolidated financial statements).
(2) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

Net Debt The Company calculates net debt as the sum of long term debt and short term debt offset by cash, cash equivalents and short term investments and believes this measure is useful in evaluating the amount of leverage employed by the Company. The Company calculates net debt excluding exchangeable debentures as net debt (as calculated above) less exchangeable debentures and believes this measure is also useful in evaluating the amount of leverage employed by the Company as the exchangeable debentures can be settled with the Company's investment in Domtar common shares included in other assets.

The following table reconciles net debt excluding exchangeable debentures to Canadian GAAP measures reported in the consolidated balance sheets:

($ millions)	As at December 31, 2004	As at December 31, 2003(1)	As at December 31, 2002(1)
Bank indebtedness	$ 123	$ 108	$ 61
Commercial paper	840	696	715
Short term bank loans	102	67	33
Long term debt due within one year	222	307	110
Long term debt	6,004	5,829	5,387
Less: Cash and cash equivalents	1,008	965	1,157
Short term investments	388	545	398
Net debt	5,895	5,497	4,751
Less: Exchangeable debentures	373	374	374
Net debt excluding exchangeable debentures	$ 5,522	$ 5,123	$ 4,377

(1) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

Total Assets The Company uses the return on average total assets ratio to measure the performance of operating assets and therefore excludes cash, cash equivalents, short term investments, assets of operations held for sale and the Domtar investment from the total assets used in this ratio. The Company believes this results in a more accurate measure of the performance of its operating assets.

The following table reconciles total assets used in the return on average total assets measure to Canadian GAAP measures reported in the consolidated balance sheets:

As at December 31, 2004

($ millions)	Weston Foods	Food Distribution	Discontinued Operations	Consolidated
Total assets	$ 4,652	$ 13,179	$ 73	$ 17,904
Less:				
Cash and cash equivalents	459	549		1,008
Short term investments	113	275		388
Current assets of operations held for sale			62	62
Long term assets of operations held for sale			11	11
Domtar investment	365			365
Total assets	$ 3,715	$ 12,355	$ –	$ 16,070

As at December 31, 2003 (1)

($ millions)	Weston Foods	Food Distribution	Discontinued Operations	Consolidated
Total assets	$ 4,817	$ 12,301	$ 268	$ 17,386
Less:				
Cash and cash equivalents	347	618		965
Short term investments	167	378		545
Current assets of operations held for sale			179	179
Long term assets of operations held for sale			89	89
Domtar investment	367			367
Total assets	$ 3,936	$ 11,305	$ –	$ 15,241

As at December 31, 2002 (1)

($ millions)	Weston Foods	Food Distribution	Discontinued Operations	Consolidated
Total assets	$ 5,261	$ 11,249	$ 292	$ 16,802
Less:				
Cash and cash equivalents	334	823		1,157
Short term investments	94	304		398
Current assets of operations held for sale			207	207
Long term assets of operations held for sale			85	85
Domtar investment	367			367
Total assets	$ 4,466	$ 10,122	$ –	$ 14,588

(1) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements and due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

The following table provides additional financial information.

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002
Market price per common share ($)	$ 109.21	$ 103.71	$ 90.25
Actual common shares outstanding (in millions)	128.9	129.4	132.3
Weighted average common shares outstanding (in millions)	128.9	131.9	131.9

ADDITIONAL INFORMATION

Additional information, including the Company's Annual Information Form, has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

March 11, 2005
Toronto, Canada