MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

W. Galen Weston
Chairman and President

Richard P. Mavrinac
Chief Financial Officer

Toronto, Canada
March 10, 2006

INDEPENDENT AUDITORS' REPORT

To the Shareholders of George Weston Limited:

We have audited the consolidated balance sheets of George Weston Limited as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Toronto, Canada
March 10, 2006

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31 ($ millions except where otherwise indicated)	2005	2004
Sales	**$ 31,363**	$ 29,798
Operating Expenses		
Cost of sales, selling and administrative expenses	**28,887**	27,276
Depreciation and amortization	**684**	618
Restructuring and other charges (note 3)	**118**	122
Goods and Services Tax and provincial sales taxes (note 4)	**40**	
	29,729	28,016
Operating Income	**1,634**	1,782
Interest Expense and Other Financing Charges (note 5)	**187**	438
Earnings from Continuing Operations Before the Following:	**1,447**	1,344
Income Taxes (note 7)	**443**	368
	1,004	976
Minority Interest	**288**	370
Net Earnings from Continuing Operations	**716**	606
Discontinued Operations (note 9)	**(18)**	(178)
Net Earnings	**$ 698**	$ 428
Net Earnings (Loss) per Common Share – Basic ($)		
Continuing Operations (note 8)	**$ 5.25**	$ 4.49
Discontinued Operations	**$ (0.14)**	$ (1.38)
Net Earnings	**$ 5.11**	$ 3.11
Net Earnings (Loss) per Common Share – Diluted ($)		
Continuing Operations (note 8)	**$ 5.25**	$ 4.48
Discontinued Operations	**$ (0.14)**	$ (1.38)
Net Earnings	**$ 5.11**	$ 3.10

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31 ($ millions except where otherwise indicated)	2005	2004
Retained Earnings, Beginning of Year	**$ 4,170**	$ 4,013
Impact of implementing new accounting standard (note 2)	**(18)**	
Retained Earnings, Beginning of Year as Restated	**$ 4,152**	$ 4,013
Net earnings	**698**	428
Premium on common shares purchased for cancellation (note 18)		(58)
Dividends declared		
Per common share – $1.44 (2004 – $1.44)	**(186)**	(186)
Per preferred share – Series I – $1.45 (2004 – $1.45)	**(13)**	(13)
– Series II – $1.29 (2004 – $1.29)	**(14)**	(14)
– Series III – $0.92	**(7)**	
– Series IV – $0.54	**(5)**	
Retained Earnings, End of Year	**$ 4,625**	$ 4,170

See accompanying notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

As at December 31 ($ millions)	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents (note 10)	**$ 1,540**	$ 1,008
Short term investments (note 10)	**50**	388
Accounts receivable (note 11)	**933**	920
Inventories	**2,173**	1,979
Income taxes	**5**	
Future income taxes (note 7)	**134**	140
Prepaid expenses and other assets	**53**	48
Current assets of operations held for sale (note 9)		62
Total Current Assets	**4,888**	4,545
Fixed Assets (note 12)	**8,916**	8,256
Goodwill and Intangible Assets (note 13)	**3,367**	3,456
Future Income Taxes (note 7)	**89**	110
Other Assets (note 14)	**1,321**	1,391
Long Term Assets of Operations Held for Sale (note 9)	**12**	11
Total Assets	**$ 18,593**	$ 17,769
LIABILITIES		
Current Liabilities		
Bank indebtedness	**$ 113**	$ 123
Commercial paper	**498**	840
Accounts payable and accrued liabilities	**3,263**	2,952
Income taxes		91
Short term bank loans (note 16)	**138**	102
Long term debt due within one year (note 16)	**361**	222
Current liabilities of operations held for sale (note 9)	**10**	22
Total Current Liabilities	**4,383**	4,352
Long Term Debt (note 16)	**5,913**	6,004
Future Income Taxes (note 7)	**343**	250
Other Liabilities (note 17)	**580**	717
Minority Interest	**2,255**	2,066
Total Liabilities	**13,474**	13,389
SHAREHOLDERS' EQUITY		
Share Capital (notes 18 & 19)	**1,012**	614
Retained Earnings	**4,625**	4,170
Cumulative Foreign Currency Translation Adjustment (note 21)	**(518)**	(404)
Total Shareholders' Equity	**5,119**	4,380
Total Liabilities and Shareholders' Equity	**$ 18,593**	$ 17,769

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

W. Galen Weston
Director

A. Charles Baillie
Director

CONSOLIDATED CASH FLOW STATEMENTS

For the years ended December 31 ($ millions)		2005	2004
Operating Activities			
Net earnings from continuing operations before minority interest		**$ 1,004**	$ 976
Depreciation and amortization		**684**	618
Restructuring and other charges (note 3)		**118**	122
Goods and Services Tax and provincial sales taxes (note 4)		**40**	
Future income taxes		**152**	(37)
Fair value adjustment of Weston's forward sale agreement (note 5)		**(150)**	101
Change in non-cash working capital		**(51)**	(201)
Other		**15**	(3)
Cash Flows from Operating Activities of Continuing Operations		**1,812**	1,576
Investing Activities			
Fixed asset purchases		**(1,358)**	(1,425)
Short term investments		**338**	136
Proceeds on termination of financial derivatives (note 20)		**5**	
Proceeds from fixed asset sales		**170**	118
Business acquisition (note 6)			(46)
Credit card receivables, after securitization (note 11)		**(84)**	(34)
Franchise investments and other receivables		**(63)**	(25)
Other		**(100)**	(59)
Cash Flows used in Investing Activities of Continuing Operations		**(1,092)**	(1,335)
Financing Activities			
Bank indebtedness		**(30)**	21
Commercial paper		**(342)**	144
Short term bank loans (note 16)	– Issued	**36**	35
Long term debt (note 16)	– Issued	**333**	400
	– Retired	**(246)**	(305)
Share capital	– Issued (notes 18 & 19)	**394**	
	– Retired		(59)
Subsidiary share capital	– Issued (note 19)	**1**	
	– Retired (note 6)	**(16)**	(35)
Dividends	– To common shareholders	**(186)**	(178)
	– To preferred shareholders	**(34)**	(27)
	– To minority shareholders	**(88)**	(80)
Other		**2**	(3)
Cash Flows used in Financing Activities of Continuing Operations		**(176)**	(87)
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents (note 10)		**(54)**	(77)
Initial impact of Variable Interest Entities (note 2)		**20**	
Cash Flows from Continuing Operations		**510**	77
Cash Flows from (used in) Discontinued Operations (note 9)		**22**	(34)
Change in Cash and Cash Equivalents		**532**	43
Cash and Cash Equivalents, Beginning of Year		**1,008**	965
Cash and Cash Equivalents, End of Year		**$ 1,540**	$ 1,008

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005
($ millions except where otherwise indicated)

1. Summary of Significant Accounting Policies

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

Basis of Consolidation

The consolidated financial statements include the accounts of George Weston Limited ("Weston") and its subsidiaries (collectively referred to as the "Company") with provision for minority interest. Weston's interest in the voting share capital of its subsidiaries is 100% except for Loblaw Companies Limited ("Loblaw"), which is 61.9% (2004 – 61.8%). Effective January 1, 2005, the Company was required, pursuant to Accounting Guideline 15, "Consolidation of Variable Interest Entities", ("AcG 15") issued by the Canadian Institute of Chartered Accountants ("CICA"), to consolidate certain variable interest entities ("VIEs") that are subject to control on a basis other than through ownership of a majority of voting interest. Additional disclosure regarding the implementation of AcG 15 is provided in note 2.

Fiscal Year

The Company's year end is December 31. Sales and related activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year with respect to sales and related activities is usually 52 weeks in duration but does include a 53rd week every five to six years. The year ended 2005 had 52 weeks of sales and related activities, resulting in an effective year end of December 31, 2005 with respect to sales and related activities. The year ended 2004 had 52 weeks of sales and related activities, resulting in an effective year end of January 1, 2005 with respect to sales and related activities. Accordingly, all references to fiscal year end in the Annual Report should be read subject to the foregoing.

Revenue Recognition

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

Earnings per Share ("EPS")

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

Cash, Cash Equivalents and Bank Indebtedness

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

Short Term Investments

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

Credit Card Receivables

The Company, through President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw, has credit card receivables that are stated net of an allowance for credit losses. Credit card receivables, if contractually past due, are not classified as impaired but are fully written off the earlier of when payments are contractually 180 days in arrears or when the likelihood of collection is considered remote. Interest income on credit card receivables is recorded on an accrual basis and is recognized in operating income.

Allowance for Credit Losses

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

Securitization

PC Bank securitizes credit card receivables through the sale of a portion of the total interest in these receivables to an independent trust and does not exercise any control over the trust's management, administration or assets. When PC Bank sells credit card receivables in a securitization transaction, it has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. Although PC Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the trust. Any gain or loss on the sale of these receivables depends, in part, on the previous carrying amount of receivables involved in the securitization, allocated between the receivables sold and the retained interest, based on their relative fair values at the date of securitization. The fair values are determined using a financial model. Any gain or loss on a sale is recognized in operating income at the time of the securitization. The carrying value of retained interests is periodically reviewed and when a decline in value is identified that is other than temporary, the carrying value is written down to fair value.

Vendor Allowances

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. Consideration received from a vendor is a reduction in the cost of the vendor's products or services and is recognized as a reduction in the cost of sales and the related inventory when recognized in the income statement and balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor's products, provided that certain conditions are met.

Inventories (principally finished products)

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

Fixed Assets

Fixed assets are recorded at cost including capitalized interest. Depreciation commences when the assets are put into use and is recognized on a straight-line basis to depreciate the cost of these assets over their estimated useful lives. Estimated useful lives range from 10 to 40 years for buildings, 10 years for building improvements and from 3 to 16 years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the estimated useful life and the term of the lease, plus renewal options when applicable, to a maximum of 10 years.

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

Assets to be disposed of are classified as held for sale and are no longer depreciated. Assets held for sale are recognized at the lower of carrying value or fair value less costs to sell. A write-down is recognized in operating income or, if the plan of disposal meets the requirements of discontinued operations, the write-down is recognized in discontinued operations (see note 9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Goodwill is not amortized and its carrying value is tested at least annually for impairment. Intangible assets with an indefinite life are not subject to amortization and are tested at least annually for impairment. Intangible assets with a finite life are amortized over their estimated useful lives ranging from 5 to 30 years. Any impairment in the carrying value of goodwill or intangible assets is recognized in operating income.

Foreign Currency Translation
(i) Self-Sustaining Foreign Operations
Assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each year end date. The resulting exchange gains or losses on translation are recognized as part of shareholders' equity in cumulative foreign currency translation adjustment. When there is a reduction in the Company's net investment in self-sustaining foreign operations, the proportionate amount of cumulative foreign currency translation adjustment is recognized in net earnings from continuing operations. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the weighted average foreign currency exchange rate for the year.

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

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

The Company formally identifies, designates and documents the relationships between hedging instruments and hedged items including: Weston's 3% Exchangeable Debentures as a hedge of the anticipated disposal of the Domtar Inc. ("Domtar") investment; Weston's interest rate swaps as a fair value hedge of certain Medium Term Notes ("MTN"); Loblaw's 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; and commodity futures as a cash flow hedge of anticipated future commodity purchases. Effectiveness tests are performed to evaluate hedge effectiveness at inception and on an ongoing basis, both retrospectively and prospectively.

Realized and unrealized foreign currency exchange rate adjustments on Loblaw's cross currency basis swaps are offset by realized and unrealized foreign currency exchange rate adjustments on a portion of its United States dollar denominated assets and are recognized in operating income. The cumulative unrealized foreign currency exchange rate receivable or payable is recorded in other assets or other liabilities, respectively. The exchange of interest payments on Loblaw's cross currency basis swaps and Weston's and Loblaw's interest rate swaps is recognized on an accrual basis in interest expense and other financing charges. Unrealized gains or losses on the interest rate swaps designated within an effective hedging relationship are not recognized. On termination of a hedging relationship, realized and unrealized gains and losses on interest rate swaps are deferred over the remaining term of the initial hedge and recognized in interest expense and other financing charges.

Financial derivative instruments not designated within an effective hedging relationship are measured at fair value with changes in fair value recorded in net earnings from continuing operations.

Effective as of the third quarter of 2004, hedge accounting is no longer permissible for Weston's forward sale agreement for 9.6 million Loblaw common shares (the "underlying Loblaw shares") as a result of the March 2004 amendment to EIC Abstract 56, "Exchangeable Debentures" ("EIC 56"). EIC 56 was amended to conform with the provisions of Accounting Guideline 13, "Hedging Relationships"

("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, Weston is required to recognize a non-cash charge or income, which is 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 of 2004. The fair value adjustment is based on fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the 9.6 million Loblaw common shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the consolidated balance sheet in other assets and other liabilities. According to the transitional provisions, the non-cash fair value adjustment, as of the effective date of the amendment to EIC 56, of $125 will remain deferred in other assets on the consolidated balance sheet, and will be recognized in net earnings from continuing operations at maturity or upon termination of the forward sale agreement.

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

During 2005, an electricity forward contract expired, which had been designated as a cash flow hedge of price volatility of the Company's electricity costs in Ontario, Canada. Prior to its expiry, gains and losses on this electricity forward contract were recognized in operating income as actual electricity costs were recognized.

Unrealized and realized gains and losses on commodity futures which are designated as a cash flow hedge of future anticipated commodity purchases are deferred in current assets or liabilities and are recognized in cost of sales when the inventory produced from the related commodity is sold. Market price adjustments on commodity futures and options, which are not designated as a cash flow hedge of future anticipated commodity purchases, are recognized in operating income.

Income Taxes

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

Employee Future Benefits

The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans, which include post-retirement, post-employment and long term disability benefits, are accrued based on actuarial valuations. The actuarial valuations are determined using the projected benefit method prorated on service and management's best estimate of the expected long term rate of return on plan assets, rate of compensation increase, retirement ages and expected growth rate of health care costs. Actuarial valuations are performed using a September 30 measurement date for accounting purposes. Market values used to value benefit plan assets are as at the measurement date. The accrued benefit plan obligation is measured using market interest rates as at the measurement date, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligation.

The cost of plan amendments and the excess unamortized net actuarial gain or loss over 10% of the greater of the accrued benefit plan obligation or the fair value of the benefit plan assets at the beginning of the year are amortized over the expected average remaining service period of the active employees. The expected average remaining service period of the active employees covered by the defined benefit pension plans ranges from 6 to 17 years with a weighted average of 12 years. The expected average remaining service period of the employees covered by the other benefit plans ranges from 4 to 15 years with a weighted average of 12 years.

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

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

Stock Option Plan and Share Appreciation Rights

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

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

Restricted Share Unit ("RSU") Plan

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

Deferred Share Units

Outside members of Weston's and Loblaw's Boards of Directors may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of deferred share units. The deferred share units obligation is accounted for using the intrinsic value method. Under the intrinsic value method, the deferred share unit compensation liability is the amount by which the market price of the common shares exceeds the initial value of the deferred share unit. The year-over-year change in the deferred share units liability is recognized as a compensation cost in operating income.

Employee Share Ownership Plan

Weston and Loblaw maintain Employee Share Ownership Plans ("ESOP") for their employees, which allow employees to acquire Weston's and Loblaw's common shares through payroll deductions of up to 5% of their gross regular earnings. Weston and Loblaw contribute an additional 25% (2004 – 15%) of each employee's contribution to their respective plans, which is recognized in operating income as a compensation cost when the contribution is made.

Use of Estimates and Assumptions

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

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

Comparative Information

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

2. Variable Interest Entities

Effective January 1, 2005, the Company implemented AcG 15, retroactively without restatement of prior periods and as a result, the Company consolidates entities in which it has control through ownership of a majority of the voting interests as well as all significant VIEs for which it is the primary beneficiary.

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

Upon implementation of AcG 15, the Company identified the following significant VIEs:

Independent Franchisees Loblaw enters into various forms of franchise agreements that generally require the independent franchisee to purchase inventory from Loblaw and pay certain fees in exchange for services provided by Loblaw and for the right to use certain trademarks and licenses owned by Loblaw. Independent franchisees generally lease the land and building from Loblaw, and when eligible, may obtain financing through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixturing and equipment. These trusts are administered by a major Canadian bank. Under the terms of certain franchise agreements, Loblaw may also lease equipment to independent franchisees. Independent franchisees may also obtain financing through operating lines of credit with traditional financial institutions or through issuing preferred shares or notes payable to Loblaw. Loblaw monitors the financial condition of its independent franchisees and provides for estimated losses or write-downs on its accounts and notes receivable or investments when appropriate. Upon implementation of AcG 15, the Company determined that 121 of Loblaw's independent franchisee stores met the criteria for VIEs that require consolidation by the Company pursuant to AcG 15.

Warehouse and Distribution Agreement Loblaw has entered into a warehousing and distribution agreement with a third party to provide to Loblaw distribution and warehousing services from a dedicated facility. Loblaw has no equity interest in this third party; however, the terms of the agreement with the third party are such that the Company has determined that the third party meets the criteria for a VIE that requires consolidation by the Company. As a result of the fee structure agreed to with this third party, the impact of the consolidation of the warehouse and distribution entity was not material.

Accordingly, the Company has included the results of these independent franchisees and this third-party entity that provides distribution and warehousing services in its consolidated financial statements effective January 1, 2005.

Details of the amounts recorded upon implementation and the effect on the opening consolidated balance sheet as at January 1, 2005 are summarized below and include the impact of both the independent franchisees and the warehouse and distribution entity:

CONDENSED CONSOLIDATED BALANCE SHEET AS AT JANUARY 1, 2005	Condensed consolidated balance sheet before AcG 15 impact	Impact of the implementation of AcG 15	Condensed consolidated balance sheet after AcG 15 impact
Cash and cash equivalents	$ 1,008	$ 20	$ 1,028
Short term investments	388		388
Accounts receivable	920	(73)	847
Inventories	1,979	78	2,057
Other current assets	250	4	254
Total current assets	4,545	29	4,574
Fixed assets	8,256	136	8,392
Goodwill and intangible assets	3,456	3	3,459
Other assets	1,512	(51)	1,461
Total assets	$ 17,769	$ 117	$ 17,886
Total current liabilities	$ 4,352	$ 48	$ 4,400
Long term debt	6,004	96	6,100
Other liabilities	967	(8)	959
Minority interest	2,066	(1)	2,065
Total liabilities	13,389	135	13,524
Common share capital	614		614
Retained earnings	4,170	(18)	4,152
Cumulative foreign currency translation adjustment	(404)		(404)
Total liabilities and shareholders' equity	$ 17,769	$ 117	$ 17,886

The impact of AcG 15 on the opening consolidated balance sheet can be further explained as follows:

- An after-tax, one-time charge of $18 (net of income taxes of $12 and minority interest of $11) was recorded upon implementation and resulted mainly from delaying the recognition of vendor monies to when the related inventories of the independent franchisees are sold to their customers, the excess of the independent franchisees' accumulated losses over the allowance for doubtful accounts previously recorded by the Company and the reversal of initial franchise fees initially recognized upon the sale of franchises to third parties.
- Accounts receivable due from the independent franchisees and the investment in preferred shares of the independent franchisees were eliminated upon consolidation; cash and cash equivalents, inventories and fixed assets financed by long term debt (a portion of which is due within one year) were recorded.
- An increase in fixed assets and total current liabilities in respect of the warehouse and distribution entity.
- Minority interest representing the common stakeholder's equity in the respective VIEs.

As at December 31, 2005, 123 of Loblaw's independent franchise stores met the criteria for a VIE and were consolidated pursuant to AcG 15.

The impact from the consolidation of these VIEs on the consolidated balance sheet as at December 31, 2005 was not significantly different than the impact on the opening consolidated balance sheet as outlined above. The impact on the consolidated statement of earnings for the year ended December 31, 2005 was predominantly an increase in sales of 1.3%. The impact on basic net earnings per common share from continuing operations for 2005 was a decline of approximately $0.03.

The consolidation of these VIEs by the Company does not result in any change to its tax, legal or credit risks nor does it result in the Company assuming any obligations of these third parties.

Independent Trust Loblaw has also identified that it holds a variable interest, by way of a standby letter of credit, in an independent trust which is used to securitize credit card receivables for PC Bank, a wholly-owned subsidiary of Loblaw. In these securitizations, PC Bank sells a portion of its credit card receivables to the independent trust in exchange for cash. Although this independent trust has been identified as a VIE, it was determined that Loblaw is not the primary beneficiary and therefore this VIE is not subject to consolidation by the Company. The Company's maximum exposure to loss as a result of its involvement with this independent trust is disclosed in notes 11 and 22.

3. Restructuring and Other Charges

The following table summarizes the restructuring and other charges:

			2005			2004
	Weston Foods	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Fixed asset impairment		**$ 10**	**$ 10**	$ 84		$ 84
Accelerated depreciation	**$ 21**	**4**	**25**	2		2
Gain on sale of fixed assets	**(18)**		**(18)**			
Intangible asset impairment				18		18
Employee termination benefits	**23**	**51**	**74**	12		12
Site closing and other exit costs	**6**	**21**	**27**	5	$ 1	6
Restructuring and other charges	**$ 32**	**$ 86**	**$ 118**	$ 121	$ 1	$ 122

Weston Foods

Weston Foods management continues to undertake a series of cost reduction initiatives to ensure a low cost operating structure. Certain of these initiatives are in progress or nearing completion while others are still in the planning stages. Individual actions will be initiated as plans are finalized and approved.

During 2005, Weston Foods made further progress on its objective of simplifying and removing cost from its existing manufacturing processes and approved plans to exit certain bread and roll manufacturing lines in the United States. All production associated with these lines was transferred to third-party producers or other Weston Foods manufacturing facilities by the end of 2005. As a result of this decision, Weston Foods recognized $1 of employee termination benefits and other exit related costs and $4 of accelerated depreciation on manufacturing equipment.

During 2005, Weston Foods approved a plan to restructure its United States biscuit operations. This plan will result in the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia by the end of 2006. Employment at both facilities is being 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 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 incremental exit and start-up costs of approximately $50 over 2005 and 2006 including employee related severance, benefit and training costs, production equipment relocations and other facility start-up related costs. In addition, Weston Foods expects to recognize accelerated depreciation on assets currently held-for-use of approximately $25 over 2005 and 2006. During 2005, Weston Foods recognized $28 of employee termination benefits and other exit related costs, $15 of accelerated depreciation, a gain of $18 related to the sale and lease-back of the two facilities to be closed associated with this restructuring plan and start-up related costs in operating income of approximately $3. Weston Foods received total proceeds of $47 related to the sale of the two biscuit facilities.

During 2005, Weston Foods approved plans to consolidate, relocate and restructure certain of its administrative offices within North America, which resulted in Weston Foods recognizing $8 of employee termination benefits and other exit related costs during 2005.

During 2004, major actions implemented included the completion of the Northlake, Illinois and Buffalo, New York bakery facility closures, the closure of the frozen-baked goods facility in St. Louis, Missouri and the exiting of the fresh waffle business in the United States as well as the closure of three bakeries and a distribution centre in Canada. As a result of these initiatives and other various distribution outsourcing and overhead reduction projects, Weston Foods recorded total restructuring charges of approximately $55. These charges consisted of $36 of fixed asset write-downs, $17 of employee termination benefits and other exit related costs and $2 of accelerated depreciation.

During 2005, Weston Foods recognized restructuring income of $8 related to the reversal of employee termination benefits and other exit related costs accruals no longer required and accelerated depreciation of $2 related to restructuring plans approved prior to 2005.

In 2005, employee termination benefits and other exit related costs of approximately $13 (2004 – $13) were paid related to restructuring activities. As at year end 2005, the accrued liabilities related to these restructuring activities were $26. In addition, related to these restructuring activities, a net curtailment loss of $2 for defined benefit plans was applied to other assets and a net curtailment gain of $2 for other benefit plans was applied to other liabilities, both of which were recorded in restructuring and other charges.

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 by:

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

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

During 2004, as part of Weston Foods' annual impairment assessment of the *Entenmann's* brand name indefinite life intangible assets, management reduced its previous estimate of the royalty rate used in the calculation of the estimated fair value as Weston Foods' profitability in the fresh-baked sweet goods category had declined significantly and remained challenged as a result of the factors described above. As a result, the Company recorded an $18 non-cash pre-tax impairment loss to reduce the carrying value of Weston Foods' *Entenmann's* brand name to estimated fair value.

Loblaw

During 2005, after completion of a detailed assessment of its supply chain network, management of Loblaw approved a comprehensive plan to restructure its supply chain operations nationally. This plan is expected to reduce future operating costs, provide a smoother flow of products and better service levels to stores and further enable Loblaw to achieve its targeted operating efficiencies. The plan involves the closure of six distribution centres and the relocation of certain activities to new distribution centres. The transfer of the distribution

activities of general merchandise to a new facility owned and operated by a third party in Pickering, Ontario, was substantially completed by the end of 2005. In addition, a new distribution centre dedicated to food distribution is expected to open in late 2007 or early 2008 in Ajax, Ontario. As a result of these initiatives, it is expected that approximately 1,400 positions will be affected within the supply chain network. The restructuring plan is expected to be completed by late 2007 or early 2008 and the total restructuring cost under this plan is estimated to be approximately $90. Of the $90 total estimated cost, approximately $57 is attributable to employee termination benefits which include severance and additional pension costs resulting from the termination of employees, $13 to fixed asset impairment and accelerated depreciation of assets relating to this restructuring activity and $20 to site closing and other costs directly attributable to the restructuring plan. In 2005, Loblaw recognized $51 of employee termination benefits and other exit related costs and $11 of fixed asset impairment and accelerated depreciation resulting from this plan.

In addition, Loblaw consolidated several administrative and operating offices from across southern Ontario into a new national head office and Store Support Centre in Brampton, Ontario and reorganized the merchandising, procurement and operations groups which included the transfer of the general merchandise operations from Calgary, Alberta to the new office facility. The charge recognized in 2005 was $21 of employee termination benefits and other exit related costs and $3 of fixed asset impairment and accelerated depreciation. These restructuring activities were substantially completed by the end of 2005.

In 2005, severance and other cash exit costs of approximately $31 were paid related to these plans. Accrued liabilities and other liabilities related to these restructuring activities were $7 and $25, respectively. In addition, $9 was applied to other assets which represents defined benefit pension plan costs related to these restructuring activities.

4. Goods and Services Tax and Provincial Sales Taxes

During 2005, Loblaw recorded a charge relating to an audit and proposed assessment by the Canada Revenue Agency relative to GST on certain products sold between 2000 and 2002 on which GST was not appropriately charged and remitted. In light of this proposed assessment, the Company assessed and estimated the potential liabilities for GST and PST in other areas of its operations for various periods up to the end of 2004. Accordingly, a charge of $40 was recorded in operating income in the third quarter of 2005 to reflect management's best estimate of such potential tax liabilities of which management is currently aware. Approximately $15 of this amount was settled during the fourth quarter of 2005. The ultimate remaining amount paid will depend on the outcome of audits performed by, or settlements reached with the various tax authorities and therefore may differ from this estimate. Management will continue to assess this remaining accrual as progress towards resolution with the various tax authorities is made and will adjust the remaining accrual accordingly.

5. Interest Expense and Other Financing Charges

	2005	2004
Interest on long term debt	**$ 404**	$ 412
Interest on financial derivative instruments (note 20)	**(1)**	(28)
Other financing charges[(1)]	**(170)**	82
Net short term interest	**(25)**	(7)
Capitalized to fixed assets	**(21)**	(21)
Interest expense and other financing charges	**$ 187**	$ 438

(1) Other financing charges for 2005 include non-cash income of $150 (2004 – non-cash charge of $101) related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares which was entered into during 2001 and matures in 2031. The Company began to recognize this non-cash charge or income prospectively in interest expense and other financing charges during the third quarter of 2004 due to the implementation of the amendment to EIC 56. The fair value adjustment is based on the fluctuations in the market value of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the underlying Loblaw shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the balance sheet in other assets and other liabilities. Also included in other financing charges is income of $20 (2004 – $19) related to the forward accretion income net of the forward fee associated with Weston's forward sale agreement.

Net interest paid in 2005 was $378 (2004 – $397).

6. Business Acquisitions

Weston Foods

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

The acquisition was accounted for using the purchase method. During the fourth quarter of 2005, Weston completed the Gadoua valuation analysis and recorded the final purchase equation, including goodwill of $18. Operating results of Gadoua have been included in the Company's consolidated financial statements since September 27, 2004.

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

	As at Sept. 27, 2004
Current assets	$ 11
Fixed assets	19
Intangible assets	27
Current liabilities	(8)
Long term debt	(7)
Future income taxes	(8)
Net assets acquired	34
Goodwill	18
	52
Less non-cash consideration:	
Weston common shares issued	(6)
Cash consideration	$ 46

Loblaw

When Loblaw purchases its own common shares, the Company accounts for the purchase as a step-by-step purchase of Loblaw. During 2005, Loblaw purchased for cancellation 226,100 (2004 – 576,100) of its common shares for $16 (2004 – $35) pursuant to its Normal Course Issuer Bid ("NCIB"), which resulted in the Company recognizing $7 (2004 – $16) of goodwill.

In the normal course of business, Loblaw may acquire from time to time franchisee stores and convert them to corporate stores. In 2005, Loblaw acquired 7 franchisee businesses (2004 – 5 franchisee businesses). The acquisitions were accounted for using the purchase method of accounting with the results of the businesses acquired included in the consolidated financial statements from the date of acquisition. The fair value of the net assets acquired consisted of a nominal amount of fixed assets (2004 – nominal), other assets principally inventory of $3 (2004 – $2) and goodwill of $3 (2004 – $6) for cash consideration of $5 (2004 – $6), net of accounts receivable due from the franchisees of $1 (2004 – $2).

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

7. Income Taxes

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

	2005	2004
Weighted average basic Canadian federal and provincial statutory income tax rate	**34.2%**	35.1%
Net decrease resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(3.3)**	(7.5)
Non-taxable amounts (including capital gains/losses and dividends)	**(0.5)**	(0.6)
Large corporation tax	**0.5**	0.8
Impact of statutory income tax rate changes on future income tax balances	**0.2**	
Impact of resolution of certain income tax matters from a previous year and other	**(0.5)**	(0.4)
Effective income tax rate	**30.6%**	27.4%

Future income tax balances were adjusted for statutory income tax rate changes in certain Canadian provinces in 2005, resulting in a $3 charge to future income tax expense. In 2004, Loblaw recognized a $14 reduction to the income tax expense as a result of the successful resolution of certain income tax matters from a previous year.

Net income taxes paid in 2005 were $340 (2004 – $441).

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

	2005	2004
Accounts payable and accrued liabilities	**$ 107**	$ 149
Other liabilities	**156**	219
Losses carried forward (expiring 2006 to 2025)	**169**	169
Other	**50**	32
Valuation allowances	**(54)**	(54)
Fixed assets	**(337)**	(320)
Goodwill	**(49)**	(56)
Intangible assets and other	**(162)**	(139)
Net future income tax liabilities	**$ (120)**	$ –

	2005	2004
Recorded in the consolidated balance sheets as follows:		
Future income tax assets		
Current	**$ 134**	$ 140
Non-current	**89**	110
	223	250
Future income tax liabilities	**(343)**	(250)
Net future income tax liabilities	**$ (120)**	$ –

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

	2005	2004
Net earnings from continuing operations	**$ 716**	$ 606
Prescribed dividends on preferred shares	**(39)**	(27)
Net earnings from continuing operations available to common shareholders	**$ 677**	$ 579
Weighted average common shares outstanding (in millions)	**129.0**	128.9
Dilutive effect of stock-based compensation (in millions)[1]	**.1**	.3
Diluted weighted average common shares outstanding (in millions)	**129.1**	129.2
Basic net earnings per common share from continuing operations ($)	**$ 5.25**	$ 4.49
Dilutive effect of stock-based compensation per common share ($)		(.01)
Diluted net earnings per common share from continuing operations ($)	**$ 5.25**	$ 4.48

(1) The following stock options were outstanding but were not recognized in the computation of diluted net earnings per common share from continuing operations as the exercise prices for these options were greater than the average market prices for the year of the common shares as follows:

Option exercise price	2005	2004
$100.00		193,000
$111.02	**579,717**	

9. Discontinued Operations

In December 2004, management approved a strategic plan to actively market for sale the remaining Fisheries operations. The operating results of the Fisheries segment are included in discontinued operations. In addition, the assets and liabilities relating to the Fisheries segment are classified as held for sale.

During 2005, the Company completed the previously announced sales of the remaining discontinued Fisheries operations. As a result of these sales, the Company will receive total net proceeds of $38, of which $12 will be deferred over the next four years, and recorded an after-tax loss of $24 as a loss from discontinued operations in 2005.

Subsequent to year end, the Company reached an agreement to settle claims against it relating to certain alleged misrepresentations and warranties arising from the sale of the Company's forest products business in 1998, including tax related representations and warranties dealing with years prior to 1998. The Company did not admit any wrongdoing or liability in connection with the settlement. The Company previously accrued for certain of these tax related claims in prior years. The net impact of this settlement agreement has been reflected in the 2005 loss from discontinued operations. A payment of $7 was made during the first quarter of 2006 as a result of this settlement agreement.

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

In addition, during 2004, the assets and liabilities relating to the Fisheries segment were valued at the lower of cost or fair value less costs to sell, resulting in an impairment charge of $194 ($147 net of tax) recognized in discontinued operations.

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

	2005	2004
Sales	**$ 79**	$ 164
Operating loss	**4**	29
Loss on disposal	**28**	9
Impairment charge		194
Loss before the following:	**32**	232
Income tax recovery	**14**	54
Loss from discontinued operations	**$ 18**	$ 178

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

	2005	2004
Current assets of operations held for sale:		
Accounts receivable		$ 20
Inventories		41
Prepaid expenses and other assets		1
		$ 62
Long term assets of operations held for sale:		
Fixed assets		$ 10
Other assets	**$ 12**	1
	$ 12	$ 11
Current liabilities of operations held for sale:		
Accounts payable and accrued liabilities	**$ 10**	$ 22

The cash flows from (used in) discontinued operations were as follows:

	2005	2004
Cash flows used in operations	**$ (3)**	$ (39)
Cash flows from investing	**25**	7
Cash flows used in financing		(2)
Cash flows from (used in) discontinued operations	**$ 22**	$ (34)

10. Cash, Cash Equivalents and Short Term Investments

At year end, the Company had $1.5 billion (2004 – $1.4 billion) in cash, cash equivalents and short term investments held or managed by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw in Barbados. The $47 (2004 – $21) of income from cash, cash equivalents and short term investments was recognized in net short term interest.

The Company recognized an unrealized foreign currency exchange rate loss of $54 (2004 – $77) as a result of translating its United States dollar denominated cash and cash equivalents. The portion of this change which related to Loblaw's United States dollar denominated cash and cash equivalents amounts to $31 (2004 – $45) and is offset in operating income by the unrealized foreign currency exchange rate gain on Loblaw's cross currency basis swaps. A cumulative unrealized foreign currency exchange rate receivable of $168 (2004 – $155) related to Loblaw's cross currency basis swaps is recorded in other assets on the balance sheet. The remaining foreign currency exchange rate loss of $23 (2004 – $32) relates to the translation of cash and cash equivalents held by Weston's self-sustaining foreign operations, which is recognized as part of shareholders' equity in cumulative foreign currency translation adjustment.

11. Credit Card Receivables

The Company, through PC Bank, securitizes credit card receivables through the sale of a portion of the total interest in these receivables to an independent trust and does not exercise any control over the trust's management, administration or assets. When PC Bank sells credit card receivables in a securitization transaction, it has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. Although PC Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the trust.

During 2005, $225 (2004 – $227) of credit card receivables were securitized, through the sale of a portion of the total interest in these receivables to an independent trust yielding a nominal net loss (2004 – nominal net gain) on the initial sale, inclusive of a $1 (2004 – $1) servicing liability. Servicing liabilities expensed during the year were $13 (2004 – $11) and the fair value at year end of recognized servicing liabilities was $8 (2004 – $7). The trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported by Loblaw through a standby letter of credit for 9% (2004 – 15%) of the securitized amount.

	2005	2004
Credit card receivables	**$ 1,257**	$ 950
Amount securitized	**(1,010)**	(785)
Net credit card receivables	**$ 247**	$ 165
Net credit loss experience	**$ 5**	$ 4

The net credit loss experience of $5 (2004 – $4) includes $33 (2004 – $23) of credit losses on the total portfolio of credit card receivables net of credit losses of $28 (2004 – $19) relating to securitized credit card receivables.

The following table outlines the key economic assumptions used in measuring the retained interests at the date of securitization for securitizations completed in 2005. The table also displays the sensitivity of the current fair value of retained interests to an immediate 10% and 20% adverse change in the 2005 key economic assumptions. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

		Change in Assumptions	
	2005	**10%**	**20%**
Carrying value of retained interests	**$ 5**		
Payment rate (monthly)	**46.0%**		
Weighted average life (years)	**0.6**		
Expected credit losses (annual)	**3.0%**	**$ (0.5)**	**$ (1.0)**
Discount rate applied to residual cash flows (annual)	**14.0%**	**$ (1.6)**	**$ (3.1)**

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

	2005	2004
Proceeds from new securitizations	**$ 225**	$ 227
Net cash flows received on retained interests	**$ 106**	$ 83

In October 2005, Eagle Credit Card Trust ("Eagle"), an independent trust, was established for the purpose of issuing notes backed by credit card receivables originated and serviced by PC Bank. Subsequent to year end, Eagle issued $500, five year notes at a weighted average rate of 4.5%, due 2011, to finance the purchase of credit card receivables previously securitized by PC Bank, from an independent trust. PC Bank will continue to service the credit card receivables on behalf of Eagle, but will not receive any fee for its servicing obligations and has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. In accordance with Canadian GAAP, the financial statements of Eagle will not be consolidated with those of the Company.

12. Fixed Assets

	2005			2004		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	**$ 442**		**$ 442**	$ 378		$ 378
Properties under development	**231**		**231**	290		290
Land	**1,718**		**1,718**	1,623		1,623
Buildings	**4,961**	**$ 959**	**4,002**	4,443	$ 863	3,580
Equipment and fixtures	**5,035**	**2,985**	**2,050**	4,587	2,601	1,986
Buildings and leasehold improvements	**769**	**299**	**470**	688	296	392
	13,156	**4,243**	**8,913**	12,009	3,760	8,249
Capital leases – buildings and equipment	**99**	**96**	**3**	98	91	7
Fixed assets	**$ 13,255**	**$ 4,339**	**$ 8,916**	$ 12,107	$ 3,851	$ 8,256

Fixed asset impairment and accelerated depreciation charges of $7 (2004 – $22) were recognized in operating income. The majority of the 2004 charges resulted from the repositioning of Loblaw's Ontario, Canada banner portfolio. An additional $35 (2004 – $86) was recognized in restructuring and other charges in 2005 for restructuring plans undertaken by Weston Foods and Loblaw (see note 3). The fair values were determined using quoted market prices where available, independent offers to purchase where available or prices for similar assets.

13. Goodwill and Intangible Assets

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

	2005			2004		
	Weston Foods	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Goodwill, beginning of year	**$ 1,203**	**$ 1,754**	**$ 2,957**	$ 1,269	$ 1,724	$ 2,993
Goodwill acquired during the year		**14**	**14**	21	30	51
Adjusted purchase price allocation[1]	**(3)**	**(41)**	**(44)**			
Impact of foreign currency translation	**(41)**		**(41)**	(87)		(87)
Goodwill, end of year	**1,159**	**1,727**	**2,886**	1,203	1,754	2,957
Trademarks and brand names[2]	**465**		**465**	482		482
Other intangible assets	**16**		**16**	17		17
Goodwill and intangible assets	**$ 1,640**	**$ 1,727**	**$ 3,367**	$ 1,702	$ 1,754	$ 3,456

(1) The Weston Foods adjusted purchase price allocation relates to the finalization of the Gadoua purchase equation. The Loblaw adjusted purchase price allocation relates to the resolution of certain income tax matters previously accrued for as part of the Provigo Inc. purchase equation.

(2) Year end 2005 balance includes the negative impact of foreign currency translation of $16 and amortization of $1. Year end 2004 balance includes the acquisition of *Gadoua* trademarks and brand names of $15, the negative impact of the impairment charge for the *Entenmann's* trademark and brand names of $18 and the negative impact of foreign currency translation of $38.

The Weston Foods intangible assets primarily relate to trademarks and brand names, of which $450 have an indefinite useful life and, accordingly, are not being amortized. The *Gadoua* trademark and brand names and other intangible assets are being amortized over their estimated useful life ranging from 5 to 30 years.

The Weston Foods and Loblaw goodwill and the Weston Foods intangible assets with an indefinite useful life are tested annually for impairment. During the fourth quarter of 2005, the Company performed the annual goodwill and indefinite life intangible asset impairment tests and determined that there was no impairment to the carrying value of the goodwill or intangible assets. During the fourth quarter of 2004, the Company performed the annual goodwill and indefinite life intangible assets impairment tests and determined that an impairment charge of $18 for the *Entenmann's* trademarks and brand names was required (see note 3).

Goodwill acquired during 2005 and 2004 includes $7 (2004 – $16) related to the step-by-step purchase of Loblaw, $3 (2004 – $6) related to Loblaw's acquisition of franchise stores (see note 6) and $4 related to independent franchisees that were consolidated by the Company pursuant to the requirements of AcG 15 (see note 2). In addition, goodwill acquired during 2004 includes $21 related to Weston Foods' acquisition of Gadoua and $8 related to Loblaw's Westfair subsidiary redemption of its Class A shares (see note 6).

14. Other Assets

	2005	2004
Domtar investment (note 16)	**$ 220**	$ 365
Franchise investments and other receivables	**313**	329
Deferred loss on equity forward sale (note 20)	**125**	125
Accrued benefit plan asset (note 15)	**183**	126
Unrealized cross currency basis swaps receivable (notes 10 and 20)	**168**	155
Unrealized equity derivative receivable (note 20)	**99**	120
Deferred charges and other	**213**	171
Other assets	**$ 1,321**	$ 1,391

15. Employee Future Benefits

The Company sponsors a number of pension plans, which include registered funded defined benefit pension plans, supplemental unfunded arrangements which provide pension benefits in excess of statutory limits and defined contribution pension plans. Certain obligations of the Company to these supplemental pension arrangements are secured by a standby letter of credit issued by a major Canadian bank. Its defined benefit pension plans are predominantly non-contributory and these benefits are, in general, based on career average earnings.

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

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

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

The most recent actuarial valuations of the Canadian defined benefit pension plans for funding purposes ("funding valuations") were as of December 31, 2003 for all plans except three plans which were as of December 31, 2004. The Company is required to file Canadian funding valuations at least every three years; accordingly, the next required funding valuations will be as of December 31, 2006 and 2007, respectively. The most recent funding valuations of the U.S. defined benefit pension plans were as of January 1, 2005. The Company is required to file U.S. funding valuations every year; accordingly, the next required valuations will be as of January 1, 2006.

Total cash payments made by the Company during 2005, consisting of contributions to funded defined benefit pension plans, defined contribution pension plans, multi-employer pension plans, long term disability benefit plans and benefits paid directly to beneficiaries of the unfunded defined benefit pension plans and unfunded other benefit plans, were $240 (2004 – $219).

The aggregate of the funded defined benefit pension plans and long term disability benefit plan contributions for 2006 are estimated to be $120, and may vary subject to actuarial valuations being completed. The Company also expects to make contributions in 2006 to defined contribution pension plans and multi-employer pension plans as well as benefit payments directly to the beneficiaries of the unfunded defined benefit pension plans and other unfunded benefit plans.

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

	2005			2004		
	Pension Benefit Plans	Other Benefit Plans (1)	Total	Pension Benefit Plans	Other Benefit Plans (1)	Total
Benefit Plan Assets						
Fair value, beginning of year	$ 1,319	$ 39	$ 1,358	$ 1,224	$ 35	$ 1,259
Actual return on plan assets	152	2	154	118	1	119
Employer contributions	107	25	132	89	23	112
Voluntary employee contributions	4		4	4		4
Benefits paid	(91)	(21)	(112)	(91)	(20)	(111)
Other, including impact of foreign currency translation	(11)		(11)	(25)		(25)
Fair value, end of year	$ 1,480	$ 45	$ 1,525	$ 1,319	$ 39	$ 1,358
Accrued Benefit Plan Obligations						
Balance, beginning of year	$ 1,571	$ 308	$ 1,879	$ 1,509	$ 333	$ 1,842
Current service cost	59	9	68	56	9	65
Interest cost	98	18	116	95	20	115
Benefits paid	(91)	(21)	(112)	(91)	(20)	(111)
Actuarial loss (gain)	214	81	295	33	(7)	26
Plan amendments/past service costs	1	2	3		(11)	(11)
Contractual termination benefits(2)	9		9			
Curtailment gain(3)	(6)	(15)	(21)			
Other, including impact of foreign currency translation	(15)	(5)	(20)	(31)	(16)	(47)
Balance, end of year	$ 1,840	$ 377	$ 2,217	$ 1,571	$ 308	$ 1,879
Deficit of Plan Assets Versus Plan Obligations	$ (360)	$ (332)	$ (692)	$ (252)	$ (269)	$ (521)
Unamortized cost of plan amendments/past service costs	7	(41)	(34)	10	(49)	(39)
Unamortized net actuarial loss	433	179	612	283	119	402
Net accrued benefit plan asset (liability)	$ 80	$ (194)	$ (114)	$ 41	$ (199)	$ (158)
Recorded in the consolidated balance sheets as follows:						
Other assets (note 14)	$ 145	$ 38	$ 183	$ 98	$ 28	$ 126
Other liabilities (note 17)	(65)	(232)	(297)	(57)	(227)	(284)
Net accrued benefit plan asset (liability)	$ 80	$ (194)	$ (114)	$ 41	$ (199)	$ (158)

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

(2) Contractual termination benefits resulted from the plan to restructure the Loblaw supply chain operations nationally and were recorded in restructuring and other charges (see note 3).

(3) Certain defined benefit pension plans and other benefit plans affected by the plan to restructure Weston Foods' United States biscuit operations, the plan to restructure Loblaw's supply chain operations nationally and the plan to exit certain of Weston Foods' United States bread lines were remeasured as at March 1, 2005, March 31, 2005 and August 1, 2005 respectively. For these plans, costs subsequent to these dates were determined using discount rates of 5.75%, 5.75% and 5.50% respectively. The majority of the resulting curtailment gains were offset against net unamortized actuarial losses for those plans. A net curtailment loss of $2 for defined benefit pension plans and a net curtailment gain of $2 for other benefit plans were recorded in restructuring and other charges (see note 3).

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

	2005		2004	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Fair Value of Benefit Plan Assets	**$ 1,480**		$ 1,253	
Accrued Benefit Plan Obligations	**1,840**	**$ 333**	1,506	$ 274
Deficit	**$ 360**	**$ 333**	$ 253	$ 274

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

	2005		2004	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Accrued Benefit Plan Obligations				
Discount rate	**5.3%**	**5.3%**	6.2%	6.1%
Rate of compensation increase	**3.5%**		3.5%	
Net Defined Benefit Plan Cost				
Discount rate[1]	**6.2%**	**6.1%**	6.3%	6.1%
Expected long term rate of return on plan assets	**8.0%**	**5.5%**	8.0%	4.5%
Rate of compensation increase	**3.5%**		3.5%	

(1) Certain defined benefit pension plans and other benefit plans affected by the plan to restructure Weston Foods' United States biscuit operations, the plan to restructure Loblaw's supply chain operations nationally and the plan to exit certain of Weston Foods' United States bread lines were remeasured as at March 1, 2005, March 31, 2005 and August 1, 2005 respectively. For these plans, costs subsequent to these dates were determined using discount rates of 5.75%, 5.75% and 5.50% respectively. The majority of the resulting curtailment gains were offset against net unamortized actuarial losses for those plans. A net curtailment loss of $2 for defined benefit pension plans and a net curtailment gain of $2 for other benefit plans were recorded in restructuring and other charges (see note 3).

The Company's growth rate of health care costs, primarily drug and other medical costs, was estimated at 10.0% (2004 – 9.0%) and is assumed to gradually decrease to 5.0% by 2013 (2004 – 5.0% by 2008) and remain at that level thereafter.

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

	2005		2004	
	Percentage of Plan Assets		Percentage of Plan Assets	
Asset Category	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Equity securities	**64%**		64%	
Debt securities	**34%**	**99%**	34%	95%
Cash and cash equivalents	**2%**	**1%**	2%	5%
Total	**100%**	**100%**	100%	100%

Pension benefit plan assets include securities issued by Weston and by Loblaw having a fair value of $5 and nil (2004 – $5 and nil) respectively as at September 30. Other benefit plan assets do not include any Weston or Loblaw securities.

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

	2005		2004	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Current service cost, net of employee contributions	**$ 55**	**$ 9**	$ 52	$ 9
Interest cost on plan obligations	**98**	**18**	95	20
Actual return on plan assets	**(152)**	**(2)**	(118)	(1)
Actuarial loss (gain)	**214**	**81**	33	(7)
Plan amendments/past service costs	**1**	**2**		(11)
Contractual termination benefits[1]	**9**			
Curtailment loss (gain)[2]	**2**	**(2)**		
Benefit plan costs, before adjustments to recognize the long term nature of employee future benefit costs	**227**	**106**	62	10
Difference between costs arising in the year and costs recognized in the year in respect of:				
Return on plan assets	**44**		20	
Actuarial (loss) gain	**(204)**	**(74)**	(22)	6
Plan amendments/past service costs		**(5)**	2	6
Net defined benefit plan cost	**67**	**27**	62	22
Defined contribution plan cost	**23**		24	
Multi-employer pension plan cost	**85**		83	
Net benefit plan cost	**$ 175**	**$ 27**	$ 169	$ 22
Recognized in the consolidated statements of earnings as follows:				
Pension and other benefit plan costs in operating income	**$ 164**	**$ 29**	$ 169	$ 22
Restructuring and other charges[1, 2]	**11**	**(2)**		
Net benefit plan cost	**$ 175**	**$ 27**	$ 169	$ 22

(1) Contractual termination benefits resulted from the plan to restructure the Loblaw supply chain operations nationally and were recorded in restructuring and other charges (see note 3).

(2) Certain defined benefit pension plans and other benefit plans affected by the plan to restructure Weston Foods' United States biscuit operations, the plan to restructure Loblaw's supply chain operations nationally and the plan to exit certain of Weston Foods' United States bread lines were remeasured as at March 1, 2005, March 31, 2005 and August 1, 2005 respectively. For these plans, costs subsequent to these dates were determined using discount rates of 5.75%, 5.75% and 5.50% respectively. The majority of the resulting curtailment gains were offset against net unamortized actuarial losses for those plans. A net curtailment loss of $2 for defined benefit pension plans and a net curtailment gain of $2 for other benefit plans were recorded in restructuring and other charges (see note 3).

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2005 and the sensitivity of a 1% change in each of these assumptions on the accrued benefit plan obligations and on the benefit plan cost for the defined benefit pension plans and other benefit plans. The table reflects the impact on the current service and interest cost components for the discount rate and expected growth rate of health care costs assumptions.

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

	Pension Benefit Plans		Other Benefit Plans	
	Accrued Benefit Plan Obligations	Benefit Plan Cost (1)	Accrued Benefit Plan Obligations	Benefit Plan Cost (1)
Expected long term rate of return on plan assets		8.0%		5.5%
Impact of: 1% increase	n/a	$ (12)	n/a	$ –
1% decrease	n/a	$ 12	n/a	$ –
Discount rate	5.3%	6.2%	5.3%	6.1%
Impact of: 1% increase	$ (248)	$ (14)	$ (46)	$ (2)
1% decrease	$ 288	$ 14	$ 53	$ 5
Expected growth rate of health care costs(2)			10.0%	9.0%
Impact of: 1% increase	n/a	n/a	$ 41	$ 4
1% decrease	n/a	n/a	$ (42)	$ (5)

n/a – not applicable

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

(2) Gradually decreasing to 5.0% by 2013 for the accrued benefit plan obligation and gradually decreasing to 5.0% by 2008 for the benefit plan cost and remaining at that level thereafter.

16. Long Term Debt

	2005	2004
George Weston Limited		
Debentures		
Series B, current rate 3.75%, due on demand(i)	$ 138	$ 102
Series A, 7.00%, due 2031(i)	466	466
Exchangeable Debentures, 3.00%, due 2023, redeemable in 2005(ii)		
Carrying amount	143	503
Deferred amount	82	(130)
Notes		
5.25%, due 2006	200	200
5.90%, due 2009	250	250
6.45%, due 2011	300	300
5.05%, due 2014	200	200
12.70%, due 2030		
Principal	150	150
Effect of coupon repurchase	(123)	(120)
7.10%, due 2032	150	150
6.69%, due 2033	100	100
Other at a weighted average interest rate of 6.29%, due 2006 to 2033	1	6
Loblaw Companies Limited		
Notes		
6.95%, due 2005(iii)		200
6.00%, due 2008	390	390
5.75%, due 2009	125	125
7.10%, due 2010	300	300
6.50%, due 2011	350	350
5.40%, due 2013	200	200
6.00%, due 2014	100	100
7.10%, due 2016	300	300
6.65%, due 2027	100	100
6.45%, due 2028	200	200
6.50%, due 2029	175	175
11.40%, due 2031		
Principal	151	151
Effect of coupon repurchase	(26)	(18)
6.85%, due 2032	200	200
6.54%, due 2033	200	200
8.75%, due 2033	200	200
6.05%, due 2034	200	200
6.15%, due 2035	200	200
5.90%, due 2036(iii)	300	
6.45%, due 2039	200	200
7.00%, due 2040	150	150
5.86%, due 2043	55	55
Other at a weighted average interest rate of 7.21%, due 2006 to 2043	33	43
Provigo Inc.		
Debentures		
Series 1996, 8.70%, due 2006	125	125
Other(iv)	1	5
VIE loans payable(v)	126	
Total long term debt	6,412	6,328
Less – amount due within one year	(361)	(222)
– amount due on demand	(138)	(102)
	$ 5,913	$ 6,004

The five-year schedule of repayment of long term debt based on maturity, excluding the Exchangeable Debentures and the amount due on demand, is as follows: 2006 – $361; 2007 – $24; 2008 – $407; 2009 – $390; 2010 – $314.

(i) During 2005, Weston issued $36 (2004 – $35) of Series B Debentures due on demand, which are at a current weighted average interest rate of 3.75%. The Series A, 7.00% and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

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

Weston's obligation on the exchange or redemption of these Debentures can be satisfied by delivery of a cash amount equivalent to the current market price of Domtar common shares at such time, the Domtar common shares or any combination thereof. Upon maturity, Weston at its option may deliver cash, the Domtar common shares or any combination thereof equal to 95.2381 Domtar common shares for each one thousand dollar principal amount of these Debentures. During 2005, $148 of the 3% Exchangeable Debentures were exchanged for Domtar common shares. A corresponding reduction in the investment in Domtar was recorded.

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

(iii) During 2005, Loblaw issued $300 of 5.90% MTN due 2036 and the Loblaw $200 of 6.95% MTN matured and was repaid.

(iv) Other of $1 (2004 – $5) represents the unamortized portion of the adjustment to fair value the Provigo Inc. Debentures. This adjustment was recorded as part of the Provigo purchase equation and was calculated using the average credit spread applicable at that time to the remaining life of the Provigo Inc. Debentures. The adjustment is being amortized over the remaining term of the Provigo Inc. Debentures.

(v) Pursuant to the requirements of AcG 15, the consolidated balance sheet as at December 31, 2005 includes $126 of loans payable of VIEs consolidated by the Company, $23 of which is due within one year. The loans payable represent financing obtained by eligible Loblaw independent franchisees through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixturing and equipment. The loans payable, which have an average term to maturity of 7 years, are due and payable on demand under certain predetermined circumstances and are secured through a general security agreement made by the independent franchisees in favour of the independent funding trust. Interest is charged on a floating rate basis and prepayment of the loans may be made without penalty. The independent funding trust within the structure finances its activities through the issuance of short term asset-backed notes to third-party investors.

As disclosed in note 22, a standby letter of credit has been provided by a major Canadian bank for the benefit of the independent funding trust equal to approximately 10% of the total principal amount of the loans outstanding at any point in time. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. In the event of a default by an independent franchisee, the independent funding trust may assign the loan to Loblaw and draw upon the standby letter of credit. No amount has ever been drawn on the standby letter of credit.

17. Other Liabilities

	2005	2004
Accrued benefit plan liability (note 15)	$ 297	$ 284
Accrued insurance liabilities	96	111
Asset retirement obligation	20	21
Goods and Services Tax and provincial sales taxes (note 4)	16	
Restructuring and other charges (note 3)	25	
Stock-based compensation liability	16	92
Unrealized equity derivative liability (note 20)	28	118
Other	82	91
Other liabilities	$ 580	$ 717

18. Share Capital

	2005	2004
Common share capital	$ 131	$ 126
Preferred shares, Series I	228	228
Preferred shares, Series II	260	260
Preferred shares, Series III	196	
Preferred shares, Series IV	197	
Share capital	$ 1,012	$ 614

Common Share Capital (authorized – unlimited)

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

	2005		2004	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	128,913,579	$ 126	129,433,442	$ 120
Issued from treasury[1]	124,647	5	67,337	7
Purchased for cancellation			(587,200)	(1)
Issued and outstanding, end of year	129,038,226	$ 131	128,913,579	$ 126
Weighted average outstanding	129,027,722		128,915,636	

(1) 2005 share capital includes $5 (2004 – $1) issued for stock options exercised (see note 19). 2004 share capital also includes $6 issued as consideration in the acquisition of Gadoua (see note 6).

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

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

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

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

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

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

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

During 2005, Weston issued 8.0 million 5.20% Preferred Shares, Series III for $25.00 per share for net proceeds of $194 million which entitle the holder to a fixed cumulative preferred cash dividend of $1.30 per share per annum. In addition, included in share capital is a future tax benefit of $2 million related to the deductibility of the issuance costs. Weston may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 1, 2010 at $26.00 per share
On or after July 1, 2011 at $25.75 per share
On or after July 1, 2012 at $25.50 per share
On or after July 1, 2013 at $25.25 per share
On or after July 1, 2014 at $25.00 per share

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

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

During 2005, Weston issued 8.0 million 5.20% Preferred Shares, Series IV for $25.00 per share for net proceeds of $195 million which entitle the holder to a fixed cumulative preferred cash dividend of $1.30 per share per annum. In addition, included in share capital is a future tax benefit of $2 million related to the deductibility of the issuance costs. Weston may, at its option, redeem for cash in whole or in part, these outstanding preferred shares as follows:

On or after October 1, 2010 at $26.00 per share
On or after October 1, 2011 at $25.75 per share
On or after October 1, 2012 at $25.50 per share
On or after October 1, 2013 at $25.25 per share
On or after October 1, 2014 at $25.00 per share

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

NCIB ($)

During 2004, Weston purchased for cancellation 587,200 of its common shares for $59 million. In addition, Weston intends to renew its NCIB to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its common shares outstanding. Weston, in accordance with the rules and by-laws of the Toronto Stock Exchange, may purchase its common shares at the then market price of such shares.

19. Stock-Based Compensation ($ except table)

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

Stock Option Plans

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

During 2005, Weston granted 401,668 stock options to 106 employees at a weighted average exercise price of $109.884 per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2005, Weston granted 213,994 stock options to 19 employees at a weighted average exercise price of $111.02 per common share, which will be settled by issuing common shares. The weighted average grant-date fair value of these stock options of $3 million was estimated using the Black-Scholes model for pricing options assuming a weighted average expected dividend yield of 1.3% annually, a weighted average risk free interest rate of 3.1%, a weighted average expected common share price volatility of 17.1% and a weighted average expected option life of 3 years.

In addition, during 2005, Weston granted 70,000 stock options to 1 employee at a weighted average exercise price of $95.88 per common share, which will be settled by issuing common shares. The weighted average grant-date fair value of these stock options of $1 million was estimated using the Black-Scholes model for pricing options assuming a weighted average expected dividend yield of 1.5% annually, a weighted average risk free interest rate of 3.7%, a weighted average expected common share price volatility of 16.5% and a weighted average expected option life of 3 years.

During 2005, Weston issued 124,647 (2004 – 8,604) common shares on the exercise of stock options for cash consideration of $5 million (2004 – $0.4 million), for which it had recorded a nominal stock-based compensation liability. In addition, the share appreciation value of $11 million (2004 – $12 million) was paid on the exercise of 224,638 (2004 – 238,627) stock options and 31,957 (2004 – 24,091) stock options were forfeited or cancelled during 2005.

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

During 2005, Loblaw granted 2,247,627 (2004 – 45,000) stock options with a weighted average exercise price of $69.729 (2004 – $65.453) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2005, Loblaw issued 25,000 (2004 – 3,000) common shares on the exercise of stock options for cash consideration of $0.9 million (2004 – $0.1 million), for which it had recorded a stock-based compensation liability of $1 million (2004 – nominal). In addition, the share appreciation value of $41 million (2004 – $33 million) was paid on the exercise of 1,135,221 (2004 – 985,395) stock options and 147,942 (2004 – 97,673) of Loblaw's stock options were forfeited or cancelled during 2005.

Subsequent to year end 2005, Loblaw granted 48,742 stock options under its current stock option plan, that allow for settlement in shares or in the share appreciation value in cash at the option of the employee, to 1 employee with an exercise price of $54.71 per common share.

Share Appreciation Right Plan

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

During 2005, Weston granted 174,108 share appreciation rights to 86 employees at a weighted average exercise price of $111.02 per common share under its existing share appreciation right plan, which will be settled in cash.

In 2005, a nominal amount was paid on the exercise of 19,400 (2004 – 10,800) share appreciation rights and 7,000 (2004 – 32,800) were forfeited or cancelled.

Restricted Share Unit ("RSU") Plans

During 2005, Weston and Loblaw adopted a RSU plan for certain senior employees. The RSUs entitle the employee to a cash payment after the end of each performance period, of up to 3 years, following the date of the award. The RSU payment will be an amount equal to the weighted average price of a Weston or Loblaw common share for a prescribed period immediately preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

During 2005, Weston granted 160,958 RSUs to 185 employees and 1,057 RSUs were cancelled. In addition, during 2005, Loblaw granted 393,335 RSUs to 236 employees and 10,151 RSUs were cancelled. At year end, a total of 159,901 Weston and 383,184 Loblaw RSUs were outstanding.

Subsequent to year end 2005, Weston awarded 143,049 RSUs to 99 employees and Loblaw awarded 644,712 RSUs to 231 employees.

Deferred Share Unit ("DSU") Plans

Outside members of Weston's and Loblaw's Boards of Directors may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs, the value of which is determined by the market price of Weston's or Loblaw's common shares at the time the director's annual retainer(s) or fees are earned. Upon termination of Board service, the common shares due to the director, as represented by the DSUs, will be purchased on the open market on the director's behalf. At year end, Weston had 21,609 (2004 – 17,176) and Loblaw had 36,666 (2004 – 30,908) DSUs outstanding. The year-over-year change in the deferred share units liability was minimal (2004 – $3 million) and was recognized in operating income.

Employee Share Ownership Plans ("ESOPs")

Weston and Loblaw maintain ESOPs for their employees, which allow employees to acquire Weston's and Loblaw's common shares through payroll deductions of up to 5% of their gross regular earnings. Weston and Loblaw contribute an additional 25% (2004 – 15%) of each employee's contribution to its plan. The ESOPs are administered through a trust, which purchases Weston's and Loblaw's common shares on the open market on behalf of employees. A compensation cost of $6 million (2004 – $3 million) related to these plans was recognized in operating income.

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

($ millions)	2005	2004
Stock option plans/share appreciation right plan (income) expense	**$ (46)**	$ 31
Equity derivatives loss (gain)	**108**	(34)
Restricted share unit plan expense	**10**	
Net stock-based compensation cost	**$ 72**	$ (3)

Stock option and share appreciation right transactions were as follows:

	2005		2004	
	Options/ Rights (number of shares)	**Weighted Average Exercise Price/Share**	Options/ Rights (number of shares)	Weighted Average Exercise Price/Share
Outstanding options/rights, beginning of year	**1,679,172**	**$ 82.687**	2,005,094	$ 79.158
Granted	**859,770**	**$ 109.257**		
Exercised	**(368,685)**	**$ 56.531**	(258,031)	$ 52.560
Forfeited/cancelled	**(38,957)**	**$ 96.136**	(67,891)	$ 92.968
Outstanding options/rights, end of year[1]	**2,131,300**	**$ 97.684**	1,679,172	$ 82.687
Options/rights exercisable, end of year	**615,055**	**$ 85.593**	598,262	$ 72.250

(1) Options/rights outstanding represented approximately 1.7% (2004 – 1.4%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%.

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

	2005				
	Outstanding Options/Rights			**Exercisable Options/Rights**	
Range of Exercise Prices ($)	**Number of Options/ Rights Outstanding**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price/Share**	**Number of Exercisable Options/ Rights**	**Weighted Average Exercise Price/Share**
$49.700 – $ 78.850	**203,660**	**1**	**$ 62.475**	**178,295**	**$ 60.145**
$93.350 – $111.020	**1,927,640**	**5**	**$ 101.404**	**436,760**	**$ 95.981**

20. Financial Instruments

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

	Notional Amounts Maturing in							
	2006	2007	2008	2009	2010	Thereafter	**2005 Total**	2004 Total
Cross currency basis swaps	$ 11	$ 76	$ 140	$ 31	$ 174	$ 604	**$ 1,036**	$ 1,114
Interest rate swaps (receive)/pay	$ (43)		$ 240	$ 140	$ 50	$ 50	**$ 437**	$ 798
Equity derivatives			$ 92		$ 199	$ 733	**$ 1,024**	$ 983
Electricity forward contract								$ 16

Cross Currency Basis Swaps

Loblaw entered into cross currency basis swaps to receive $1.0 billion (2004 – $1.1 billion) of Canadian dollars in exchange for United States dollars, which mature by 2016. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. At year end, a cumulative unrealized foreign currency exchange rate receivable of $168 (2004 – $155) was recorded in other assets.

Interest Rate Swaps

During 2004, Weston entered into interest rate swap contracts with a notional value of $200 which mature in 2014. These interest rate swaps were designated as a fair value hedge of the $200 of 5.05% MTN due 2014. Under the terms of the interest rate swaps, Weston received a fixed interest rate of 4.8% and paid a floating interest rate. During 2005, Weston terminated these interest rate swaps. The gain of $5 realized on the termination of these swaps will be deferred and recognized over the remaining term of the initial hedge in interest expense and other financing charges.

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

Loblaw enters into interest rate swaps to hedge a portion of its exposure to fluctuations in interest rates. Loblaw's interest rate swaps convert a net notional $437 (2004 – $598) of its floating rate investments to fixed rate investments at 4.76% (2004 – 5.80%), which mature by 2013.

Equity Swaps and Forwards ($)

In 2005, Weston had cumulative outstanding equity swaps in its common shares of 1,686,700 (2004 – 1,686,700) at an average forward price of $103.17 (2004 – $103.17). In 2005, Loblaw had cumulative outstanding equity forwards in its common shares of 4.8 million (2004 – 4.8 million), at an average forward price of $50.02 (2004 – $49.25) including $5.15 (2004 – $4.38) per common share of interest expense net of dividends that has been recognized in net earnings from continuing operations and will be paid at termination. These swaps and forwards allow for several methods of settlement including net cash settlement. They change in value as the market price of the underlying common shares changes and provide a partial offset to fluctuations in Weston's and Loblaw's stock-based compensation cost. The 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 amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised, vested stock options and restricted share units relative to the number of underlying common shares on the equity derivatives and the fluctuations in the market price of the underlying common shares. The Company has included an unrealized market loss of $28 million in other liabilities (2004 – gain of $11 million in other assets) relating to these swaps and has included an unrealized market gain in other assets of $30 million (2004 – $109 million) relating to these forwards.

In 2001, Weston entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share which, as at December 31, 2005, had increased to a forward price of $63.50 (2004 – $59.70) per Loblaw common share. The forward matures in 2031 and will be settled in cash as follows: Weston will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of Weston under this forward is secured by the underlying Loblaw common shares. Weston entered into this forward to partially offset any repayment risk associated with its Series A, 7.00% and Series B Debentures. Further, the market value of the underlying Loblaw common shares exceeds the obligation of Weston under this forward and a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity. Accordingly, hedge accounting was applied from inception of this agreement until the end of the second quarter of 2004.

Effective as of the third quarter of 2004, hedge accounting is no longer permissible for Weston's forward sale agreement for 9.6 million Loblaw common shares as a result of the March 2004 amendment to EIC 56. EIC 56 was amended to conform with the provisions of AcG 13, which deal with items ineligible for hedge accounting, by rescinding the ability to use hedge accounting if an entity's investment in the underlying shares is consolidated or is accounted for by the equity method. The effective date to cease the hedge accounting described was the first fiscal period commencing after July 1, 2004. As a result of adopting this amendment to EIC 56, Weston is required to recognize a non-cash charge or income, which is 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 of 2004. 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 amounted to $125 million and will remain deferred in other assets on the consolidated balance sheet and will be recognized in net earnings from continuing operations at maturity or upon termination of the forward sale agreement. At year end, Weston had a receivable under this forward of $69 million, which was included in other assets (2004 – obligation of $118 million included in other liabilities).

Electricity Forward Contract

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

Fair Value of Financial Instruments

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

- The fair values of cash, cash equivalents, short term investments, accounts receivable, bank indebtedness, commercial paper, accounts payable, accrued liabilities and short term bank loans approximated their carrying values given their short term maturities.
- The fair value of long term debt issues was estimated based on the discounted cash flows of the debt at the Company's estimated incremental borrowing rates for debt of the same remaining maturities.
- The fair value of the Exchangeable Debentures was estimated based on their market price at the reporting date.
- The fair value of the cross currency basis swaps was estimated based on the market spot exchange rate and forward interest rates and approximated their carrying value.
- The fair value of the interest rate swaps was estimated by discounting net cash flows of the swaps at market and forward interest rates for swaps of the same remaining maturities.
- The fair value of the equity swaps and forwards was estimated by multiplying the number of Weston and Loblaw common shares outstanding under the swaps and forwards by the difference between the market price of the common shares and the average forward price of the outstanding swaps and forwards at year end.
- In 2004, the fair value of the electricity forward contract was provided by the counterparty based on expected future electricity prices.

	2005		2004	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long term debt liability	**$ 6,412**	**$ 7,149**	$ 6,328	$ 7,100
Long term debt liability (excluding Exchangeable Debentures)	**$ 6,187**	**$ 7,006**	$ 5,955	$ 6,596
Interest rate swaps net (liability) asset		**$ (11)**	$ (2)	$ 9
Equity swaps and forwards net asset	**$ 71**	**$ 71**	$ 2	$ 2
Electricity forward contract net asset				$ 3

Counterparty Risk

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

Credit Risk

The Company's exposure to credit risk relates to the Company's cash equivalents and short term investments, Weston Foods' trade and other accounts receivables and Loblaw'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 at minimum a long term 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 and other accounts receivables in order to mitigate any possible credit losses.

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

21. Cumulative Foreign Currency Translation Adjustment

In 2005, as a result of the strengthening of the Canadian dollar relative to the United States dollar, the change in the cumulative foreign currency translation adjustment decreased shareholders' equity by $114 (2004 – $213). This net change was due to the negative impact of translating the Company's U.S. net investment in self-sustaining foreign operations as a result of the strengthening of the Canadian dollar relative to the United States dollar.

22. Contingencies, Commitments and Guarantees

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

There are various operating leases that have been committed to. Future minimum lease payments relating to these operating leases are as follows:

	Payments due by year							
	2006	2007	2008	2009	2010	Thereafter to 2049	**2005 Total**	2004 Total
Operating lease payments	$ 234	$ 215	$ 189	$ 163	$ 140	$ 860	**$ 1,801**	$ 1,526
Expected sub-lease income	(48)	(41)	(35)	(30)	(22)	(94)	**(270)**	(299)
Net operating lease payments	$ 186	$ 174	$ 154	$ 133	$ 118	$ 766	**$ 1,531**	$ 1,227

At year end, the Company has committed approximately $308 (2004 – $357) with respect to capital investment projects such as the construction, expansion and renovation of buildings and the purchase of real property.

The Company establishes standby letters of credit used in connection with certain obligations mainly related to real estate transactions and benefit programs. The aggregate gross potential liability related to these standby letters of credit is approximately $414 (2004 – $303). Other standby letters of credit related to the financing program for Loblaw's franchisees and securitization of PC Bank's credit card receivables have been identified as guarantees and are discussed further in the Guarantees section below.

Guarantees

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

Standby Letters of Credit A standby letter of credit for the benefit of an independent trust with respect to the credit card receivables securitization program of PC Bank, a wholly owned subsidiary of Loblaw, has been issued by a major Canadian bank. This standby letter of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. Loblaw believes that the likelihood of this occurrence is remote. The aggregate gross potential liability under this arrangement, which represents 9% (2004 – 15%) of the securitized credit card receivables amount, is approximately $91 (2004 – $118).

A standby letter of credit has been issued by a major Canadian bank in the amount of $42 (2004 – $42) for the benefit of an independent funding trust which provides loans to Loblaw's franchisees for their purchase of inventory and fixed assets, mainly fixturing and equipment. The amount of the standby letter of credit is based on a formula and is equal to approximately 10% of the principal amount of the loans outstanding at any point in time. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust 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.

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is $138 (2004 – $145).

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

During 2004, Weston was served with a statement of claim for damages arising from an alleged breach of tax related representations and warranties dealing with years prior to the 1998 sale of Weston's forest products business. Subsequent to year end, this claim was settled and the impact was reflected as part of discontinued operations (see note 9).

23. Related Party Transactions

The Company's majority shareholder, Wittington Investments, Limited ("Wittington"), and its affiliates are related parties. The Company, in the normal course of business, has routine transactions with these related parties, including the rental of office space at market prices from Wittington. Rental payments to Wittington amounted to approximately $5 (2004 – $4). In 2004, a one time payment of $8 for a property designated for future development was also made. It is the Company's policy to conduct all transactions and settle balances with related parties on normal trade terms.

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

24. Segment Information

The Company has two reportable operating segments: Weston Foods and Loblaw. The Weston Foods segment is primarily engaged in the baking and dairy industries within North America. The Loblaw segment, which is operated by Loblaw Companies Limited and its subsidiaries, focuses on food distribution and the merchandising of general merchandise, drugstore and financial products and services. In prior years, the Company reported the Loblaw segment as the Food Distribution segment.

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

	2005	2004
Sales		
Weston Foods	**$ 4,376**	$ 4,335
Loblaw	**27,801**	26,209
Intersegment	**(814)**	(746)
Consolidated	**$ 31,363**	$ 29,798
Operating Income[1]		
Weston Foods	**$ 241**	$ 138
Loblaw	**1,393**	1,644
Consolidated	**$ 1,634**	$ 1,782
Depreciation and Amortization		
Weston Foods	**$ 126**	$ 145
Loblaw	**558**	473
Consolidated	**$ 684**	$ 618
Total Assets		
Weston Foods[2]	**$ 4,675**	$ 4,614
Loblaw	**13,906**	13,082
Discontinued Operations	**12**	73
Consolidated	**$ 18,593**	$ 17,769
Fixed Assets and Goodwill Purchases		
Weston Foods	**$ 202**	$ 188
Loblaw	**1,170**	1,288
Consolidated	**$ 1,372**	$ 1,476

(1) 2005 includes restructuring and other charges of $118 (2004 – $122) made up of a $32 (2004 – $121) charge recognized by Weston Foods and an $86 (2004 – $1) charge recognized by Loblaw (see note 3).
(2) Includes the $220 (2004 – $365) investment in Domtar common shares, which is effectively hedged as a result of Weston issuing the 3% Exchangeable Debentures (see note 16).

The Company operates primarily in Canada and the United States.

	2005	2004
Sales (excluding intersegment)		
Canada	**$ 28,393**	$ 26,749
United States	**2,970**	3,049
Consolidated	**$ 31,363**	$ 29,798
Fixed Assets and Goodwill		
Canada	**$ 9,890**	$ 9,268
United States	**1,912**	1,945
Consolidated	**$ 11,802**	$ 11,213