George Weston Limited
Quarterly Report to Shareholders

40 Weeks Ended October 8, 2005

Q3

Weston

FORWARD-LOOKING STATEMENTS

This Quarterly Report for George Weston Limited ("Weston") and its subsidiaries (collectively, the "Company"), including this Report to Shareholders and Management Discussion and Analysis ("MD&A"), contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions.

These forward-looking statements are not facts, but only predictions. Although the Company believes that these statements are based on information and assumptions, which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from the estimates, projections and intentions. Such differences may be caused by factors which include, but are not limited to, changes in consumer spending, preferences and consumer's nutritional and health related concerns, changes in the competitive environment including changes in pricing and market strategies of the Company's competitors and the entry of new competitors and expansion of current competitors, the availability and cost of raw materials and ingredients, fuel and utilities, the ability to realize anticipated cost savings including those resulting from restructuring and other cost reduction initiatives, the Company's relationship with its employees, results of labour negotiations including the terms of future collective bargaining agreements, changes to the regulatory environment in which the Company operates now or in the future, changes in the Company's tax liabilities, either through changes in tax laws or future assessments, performance of third party service providers, the ability of the Company to attract and retain key executives, the success rate of the Company in developing and introducing new products and entering new markets and supply and quality control issues with vendors. A discussion of these and other risks and uncertainties is included in the Operating and Financial Risks and Risk Management sections of the MD&A included in Weston's 2004 Annual Report. The Company cautions that the list of factors is not exhaustive.

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

Report to Shareholders

George Weston Limited's third quarter 2005 basic net earnings from continuing operations per common share were $1.41, an increase of 2.9% compared to $1.37 in 2004 and included the net negative impact of $0.20 per common share as a result of the following factors:

- a $0.01 per common share charge (an $8 million charge to operating income) related to restructuring and other charges for the previously approved restructuring plans for both Weston Foods and Loblaw Companies Limited ("Loblaw") as well as plans to exit certain Weston Foods bread and roll lines approved during the third quarter of 2005;
- a $0.06 per common share charge ($20 million charge to operating income) related to Loblaw's estimated impact of direct costs associated with supply chain disruptions described below;
- a $0.14 per common share charge (a $40 million charge to operating income) related to Loblaw's estimate of Goods and Services Tax ("GST") and provincial sales taxes ("PST") charge described below;
- a $0.06 per common share charge (a $9 million charge to operating income) related to net stock-based compensation; and
- $0.07 per common share non-cash income related to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares which is offset on an economic basis.

In 2004, third quarter basic net earnings from continuing operations per common share of $1.37 included the net negative impact of $0.27 per common share as a result of the following factors:

- a $0.21 per common share charge (a $44 million charge to operating income) related to restructuring and other charges in Weston Foods;
- $0.03 per common share income ($5 million of income in operating income) related to net stock-based compensation; and
- a $0.09 per common share non-cash charge related to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares which is offset on an economic basis.

CONSOLIDATED RESULTS OF OPERATIONS

Sales increased 5.2% to $9.7 billion for the quarter, with a negative impact on sales growth due to foreign currency translation of approximately 1.0% and a positive impact of approximately 1.5% from the consolidation of certain Loblaw independent franchisees, pursuant to new accounting standards.

Operating income of $478 million for the third quarter of 2005 compared to $505 million in 2004, a decline of 5.3%. The net negative impact of the above noted items on operating income was $77 million in 2005 compared to $39 million in 2004, which negatively impacted operating income growth by 7.3% in 2005. Consolidated operating margin for the quarter of 4.9% compared to 5.5% in 2004 was negatively impacted by 0.8% (2004 – 0.4%) due to the impact of the issues discussed above.

Interest expense and other financing charges decreased 24.1% to $88 million from $116 million in 2004, primarily as a result of non-cash income of $14 million (2004 – non-cash charge of $18 million) reflecting the accounting for the forward sale agreement of Loblaw common shares. The effective income tax rate increased to 30.0% from 27.2% in the third quarter of 2004 primarily due to the change in the proportion of taxable income across the different tax jurisdictions in which the Company operates.

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

Weston Foods
Weston Foods sales increased 5.9% for the third quarter offset by the negative impact of foreign currency translation, which reduced Weston Foods sales growth by approximately 7.1% and resulted in reported sales of $1.3 billion, a decrease of 1.2% as compared to 2004. Overall volume growth of approximately 4.2% as well as price increases in key product categories and changes in product mix all contributed positively to sales growth for the quarter.

Weston Foods operating income for the third quarter of $101 million increased 98.0% compared to $51 million in 2004. As more fully disclosed in the attached MD&A, the net impact of lower restructuring and other charges, higher stock-based compensation costs and foreign currency translation positively impacted operating income growth by 85.5%.

Operating margin for the third quarter of 2005 improved to 7.5% from 3.7% in 2004 and was impacted positively by 0.3% (2004 – negatively impacted by 3.1%) due to restructuring and other charges and stock-based compensation costs.

Food Distribution (operated by Loblaw)
Loblaw sales for the third quarter increased 6.4% to $8.7 billion from the $8.1 billion reported in the third quarter of 2004, with all regions enjoying sales growth. An increase in sales for the quarter of approximately 1.7% related to the consolidation of certain independent franchisees pursuant to new accounting standards implemented in the first quarter of 2005. Same-store sales growth was flat during the quarter and approximately 0.5% year-to-date. Sales and same-store sales were adversely affected by supply chain disruptions experienced during the quarter, with the general merchandise and health and beauty care departments experiencing the greatest impact.

During the quarter, Loblaw continued to move forward with its strategies including the execution of previously approved transformative initiatives including its office consolidation, systems conversions, supply chain network restructuring and relocation of its general merchandise operations.

Loblaw experienced disruptions in the flow of inventory to its stores in particular in western Canada resulting from the supply chain restructuring and from certain supply chain systems conversions undertaken as part of the creation of a national information technology platform. In addition, the new third party-operated general merchandise warehouse and distribution centre for eastern Canada has not reached planned operating efficiency or capacity as quickly as expected.

Additional incremental direct costs of $20 million were incurred in the handling, storage and movement of inventory in light of these disruptions. As well, these disruptions of supply resulted in lost sales to Loblaw, reducing expected sales growth in the quarter by approximately 0.8% to 1.2% when compared to last year.

A charge was recorded in the third quarter relating to an audit and proposed assessment by the Canada Revenue Agency relative to GST on certain products sold during prior fiscal periods on which GST was not appropriately charged and remitted. In light of this proposed assessment, Loblaw has assessed and estimated the potential liabilities for GST and PST in other areas of its operations. Accordingly, a charge of $40 million was recorded by Loblaw in the third quarter to reflect the best estimate of all such potential tax liabilities of which management is currently aware.

Operating income of $377 million for the third quarter resulted in an operating margin of 4.4% compared to $454 million and an operating margin of 5.6% in 2004. Restructuring and other charges of $17 million in the current quarter accounted for a decline in operating margin of approximately 0.2% and were consistent with such charges in previous quarters. The above noted supply chain disruptions and the GST and PST related charges accounted for a decline in operating income of approximately $60 million in the current quarter and a decline in operating margin of approximately 0.7%.

As indicated on previous occasions, the transformative changes being undertaken by Loblaw would cause fluctuations in earnings performance over the short term. During the third quarter, issues arose that made the execution of these changes more complex, more time consuming and more disruptive than expected. The goal is to minimize the duration of these changes by working to achieve resolution in an expedient manner.

OUTLOOK

The outlook for the remainder of the year for Weston Foods is for continued growth in sales as a result of continued volume, price and product mix improvements. Operating income growth is expected to continue, with operating margins being pressured by underlying cost inflation, particularly with respect to certain materials, energy and people related benefits costs.

Loblaw remains confident in its long-term strategy and in its ability to implement it. The restructuring of the supply chain network and other transformative initiatives were undertaken from a position of strength to fortify Loblaw's long term competitive position and reflects its focus on managing the business for the long term. The underlying business, its position in the marketplace and its financial condition remain strong. The challenges encountered in the supply chain network involve matters of execution. These initiatives will continue to cause sales and earnings fluctuations in the near term. Loblaw believes that these initiatives, like other transformative changes, will make the expected positive contribution to its future performance.

The consolidated results continue to reflect the transformational changes undertaken by both the Weston Foods and Loblaw operating businesses in order to position them for strong growth in the future.

W. Galen Weston

W. Galen Weston
Chairman and President

Toronto, Canada
November 21, 2005

Management's Discussion and Analysis

The following MD&A for George Weston Limited should be read in conjunction with Weston's 2005 unaudited interim period consolidated financial statements and the accompanying notes included on pages 24 to 40 of this Quarterly Report and the audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2004 and the related annual MD&A included in Weston's 2004 Annual Report. Weston's 2005 unaudited interim period consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. As a result of implementing Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG 15"), effective January 1, 2005, these consolidated financial statements include the accounts of George Weston Limited and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate. A more comprehensive discussion regarding the implementation of AcG 15 is included in the section "New Accounting Standards" below. A glossary of terms and ratios used throughout this Quarterly Report can be found on page 98 of Weston's 2004 Annual Report. In addition, this Quarterly Report includes the following terms: "rolling year return on average total assets", which is defined as operating income for the latest four quarters divided by average total assets excluding cash, cash equivalents, short term investments and assets held for sale; and "rolling year return on average shareholders' equity", which is defined as net earnings from continuing operations available to common shareholders for the latest four quarters divided by average total common shareholders' equity. The information in this MD&A is current to November 21, 2005, unless otherwise noted.

CONSOLIDATED RESULTS OF OPERATIONS

Sales Sales for the third quarter of 2005 increased 5.2%, or $477 million, to $9.7 billion from $9.3 billion in 2004, with year-to-date sales of $24.0 billion, 5.5% ahead of last year, including the positive impact of approximately 1.5% for the third quarter and 1.3% year-to-date related to the consolidation of certain Loblaw independent franchisees as required by AcG 15. The impact of foreign currency translation due to the strengthening Canadian dollar on the Weston Foods operating segment negatively impacted consolidated sales by approximately 1.0% for the third quarter and on a year-to-date basis. The Company's consolidated sales for the third quarter of 2005 were impacted by each of its reportable operating segments as follows:

- Negatively by 0.2% due to a sales decrease of 1.2% at Weston Foods, including the negative impact of foreign currency translation that reduced Weston Foods reported sales growth by approximately 7.1%.
- Positively by 5.6% due to sales growth of 6.4% at Food Distribution, operated by Loblaw, with all regions across the country experiencing sales growth over the prior year and including the positive impact of approximately 1.7% related to the consolidation of certain Loblaw independent franchisees pursuant to new accounting standards implemented in the first quarter of 2005. Sales and same-store sales were adversely affected by supply chain disruptions experienced during the quarter, with general merchandise and health and beauty care departments experiencing the greatest impact.

Operating Income Operating income of $478 million for the third quarter of 2005 compared to $505 million in 2004, a decline of 5.3%. Restructuring and other charges of $8 million in the third quarter of 2005, as compared to $47 million in 2004, positively impacted operating income growth by 6.7%. As discussed in the Weston Foods and Food Distribution operating results sections below, the restructuring and other charges relate to certain cost reduction and reorganization initiatives undertaken by both operating segments. In addition, as noted in the Loblaw operating result section below, Loblaw's supply chain disruptions and Good and Services Tax ("GST") and provincial sales tax ("PST") related charges accounted for a decline in operating income of approximately $60 million in the current quarter and negatively impacted consolidated operating income growth by 11.9%. Consolidated operating income also includes a charge of $9 million (2004 – income of $5 million) for stock-based compensation net of the impact of related equity derivatives. The Company's operating income was impacted by each of its reportable operating segments as follows:

- Positively by 9.9% due to an operating income increase of 98.0% at Weston Foods, which was positively impacted by 85.5% due to lower restructuring and other charges, net of higher stock-based compensation costs and foreign currency translation. In addition, Weston Foods operating margin for 2005 was impacted positively by sales growth combined with the benefits being realized from restructuring and cost reduction activities initiated in 2004 and during the first half of 2005.
- Negatively by 15.2% due to an operating income decrease of 17.0% at Loblaw, including the negative impact of $60 million related to Loblaw's supply chain disruptions and GST and PST related charges and $17 million of restructuring and other charges primarily related to previously approved transformative initiatives, including office consolidation, systems conversion, supply chain network restructuring and relocation of general merchandise operations.

Year-to-date operating income for 2005 decreased 5.1% or $64 million, to $1,194 million compared to $1,258 million last year, including a charge of $113 million (2004 – $55 million) related to cost reduction and reorganization initiatives undertaken by the Weston Foods and Loblaw operating segments and $60 million related to Loblaw's supply chain disruptions and GST and PST related charges. In addition, 2005 operating income includes a charge of $24 million (2004 – $14 million) for stock-based compensation net of the impact of related equity derivatives.

The Company's consolidated operating margin for the third quarter of 2005 decreased to 4.9% from 5.5% in 2004. For the third quarter of 2005, the consolidated operating margin was negatively impacted by the following:

- 0.1% (2004 – 0.5%) due to restructuring and other charges;
- 0.2% due to Loblaw's supply chain disruptions; and
- 0.4% due to Loblaw's GST and PST related charges.

The consolidated EBITDA (see Supplementary Financial Information beginning on page 22) margin for the third quarter of 2005 decreased to 7.2% from 7.5% in 2004.

The Company's consolidated operating margin for 2005 year-to-date decreased to 5.0% from 5.5% in 2004. For 2005 year-to-date, the consolidated operating margin was negatively impacted by the following:

- 0.5% (2004 – 0.2%) due to restructuring and other charges;
- 0.1% due to Loblaw's supply chain disruptions; and
- 0.2% due to Loblaw's GST and PST related charges.

The consolidated EBITDA margin for 2005 year-to-date decreased to 7.2% from 7.6% in 2004.

Interest Expense and Other Financing Charges Interest expense and other financing charges for the third quarter of 2005 decreased $28 million, or 24.1%, to $88 million from $116 million in 2004 as a result of non-cash income of $14 million (2004 – non-cash charge of $18 million) recorded in other financing charges representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares (the "underlying Loblaw shares"). The fair value adjustment is based on the fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the underlying Loblaw shares. In addition, the decrease is explained as follows:

- Interest on long term debt of $122 million (2004 – $129 million) decreased due to a decline in average long term borrowing levels and lower average borrowing rates;
- Interest on financial derivative instruments, which includes the effect of the Company's interest rate swaps, cross currency basis swaps and equity derivatives, resulted in a charge of $2 million (2004 – income of $12 million);
- Net short term interest income of $9 million compared to $7 million in 2004; and
- During the third quarter of 2005, $7 million (2004 – $6 million) of interest expense was capitalized to fixed assets.

Interest expense and other financing charges on a year-to-date basis decreased $40 million to $234 million from $274 million in 2004 as a result of the non-cash income of $28 million (2004 – non-cash charge of $18 million) relating to the fair value adjustment of Weston's forward sale agreement for the underlying Loblaw shares, offset by lower income from the Company's interest rate swaps, cross currency basis swaps and equity derivatives.

Income Taxes The Company's effective income tax rate increased to 30.0% from 27.2% in the third quarter of 2004 and on a year-to-date basis decreased to 28.4% from 29.6% in 2004 as a result of the change in the proportion of taxable income across different tax jurisdictions, including the effect of restructuring and other charges and the income tax impact related to stock-based compensation and related equity derivatives. The successful resolution of certain previous year's income tax matters by Loblaw reduced income tax expense in the first quarter of 2004 by $14 million.

Net Earnings from Continuing Operations Net earnings from continuing operations for the third quarter of 2005 increased $11 million, or 5.9%, to $196 million from $185 million in 2004 and on a year-to-date basis increased $24 million, or 5.3%, to $476 million from $452 million in 2004.

Basic net earnings from continuing operations per common share for the third quarter of 2005 increased $0.04, or 2.9%, to $1.41 from $1.37 in 2004 and year-to-date increased $0.13, or 3.9%, to $3.47 from $3.34 in 2004.

The third quarter 2005 basic net earnings from continuing operations per common share of $1.41 included the net negative impact of $0.20 per common share as a result of the following factors:

- $0.04 per common share income (income of $9 million in operating income) primarily due to a pre-tax gain of $18 million recognized from the sale of two Weston Foods biscuit facilities during the third quarter of 2005 related to the previously approved plan to restructure the United States biscuit operations. This income was partially offset by the restructuring and other charges recognized during the third quarter related to this restructuring as well as plans to exit certain bread and roll lines approved during the third quarter of 2005;

- a $0.05 per common share charge (a $17 million charge to operating income) related to Loblaw's restructuring and other charges for the previously approved transformative initiatives including office consolidation, systems conversion, supply chain network restructuring and relocation of general merchandise operations;
- a $0.06 per common share charge ($20 million charge to operating income) related to Loblaw's estimated impact of direct costs associated with supply chain disruptions;
- a $0.14 per common share charge (a $40 million charge to operating income) related to Loblaw's estimate of GST and PST related charges;
- a $0.06 per common share charge (a $9 million charge to operating income) related to net stock-based compensation; and
- $0.07 per common share non-cash income related to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares which is offset on an economic basis.

Last year's third quarter basic net earnings from continuing operations per common share of $1.37 included the net negative impact of $0.27 per common share as a result of the following factors:

- a $0.21 per common share charge (a $44 million charge to operating income) related to the restructuring and other charges in Weston Foods;
- $0.03 per common share income ($5 million of income in operating income) related to net stock-based compensation; and
- a $0.09 per common share non-cash charge related to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares which is offset on an economic basis.

The 2005 year-to-date basic net earnings from continuing operations per common share of $3.47 included the net negative impact of $0.61 per common share as a result of the following factors:

- a $0.15 per common share charge (a $31 million charge to operating income) related to restructuring and other charges for the previously approved plan to restructure the Weston Foods United States biscuit operations as well as plans to exit certain bread and roll lines approved during the third quarter of 2005 and a pre-tax gain, included in operating income, of $18 million recognized as a result of the sale of two biscuit facilities during the third quarter of 2005 related to the previously approved plan to restructure the Weston Foods United States biscuit operations;
- a $0.25 per common share charge (an $82 million charge to operating income) related to Loblaw's restructuring and other charges for the previously approved transformative initiatives including office consolidation, systems conversion, supply chain network restructuring and relocation of its general merchandise operations;
- a $0.06 per common share charge ($20 million charge to operating income) related to Loblaw's estimated impact of direct costs associated with supply chain disruptions;
- a $0.14 per common share charge (a $40 million charge to operating income) related to Loblaw's estimate of GST and PST related charges;
- a $0.15 per common share charge (a $24 million charge to operating income) related to net stock-based compensation; and

- $0.14 per common share non-cash income related to the accounting for Weston's 2001 forward sale agreement of the underlying Loblaw shares which is offset on an economic basis.

Last year's year-to-date basic net earnings from continuing operations per common share of $3.34 included the net negative impact of $0.35 per common share as a result of the following factors:

- a $0.21 per common share charge (a $44 million charge to operating income) related to the restructuring and other charges in Weston Foods;
- a $0.12 per common share charge (a $14 million charge to operating income) related to net stock-based compensation;
- a $0.09 per common share non-cash charge related to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares which is offset on an economic basis; and
- $0.07 per common share income due to an income tax credit of $14 million related to Loblaw's successful resolution of certain prior year's income tax matters.

Discontinued Operations The loss from discontinued operations on a year-to-date basis was $27 million compared to $23 million in 2004. During the third quarter of 2005, the Company completed the previously announced sales of the remaining discontinued Fisheries operations. As a result of these previously announced sales, the Company will receive total net proceeds of $38 million, of which $12 million will be deferred over the next four years, and recorded an after-tax loss of $24 million as a loss from discontinued operations in the second quarter of 2005.

Net Earnings Net earnings for the third quarter of 2005 increased $28 million, or 16.7%, to $196 million from $168 million in 2004 and year-to-date increased $20 million, or 4.7%, to $449 million from $429 million in 2004. Basic net earnings per common share for the third quarter of 2005 increased $0.17, or 13.7%, to $1.41 from $1.24 in 2004 and year-to-date increased $0.10, or 3.2%, to $3.26 from $3.16 in 2004 as a result of the factors discussed above.

REPORTABLE OPERATING SEGMENTS

Weston Foods

Sales Weston Foods sales for the third quarter of 2005 of $1.3 billion decreased 1.2% compared to 2004, as a result of a sales increase of 5.9% offset by the negative impact of foreign currency translation which reduced Weston Foods reported sales growth by approximately 7.1%. Overall volume increased by approximately 4.2% for the third quarter of 2005 with approximately 2.3% of this volume growth attributable to the acquisition of Boulangerie Gadoua Ltée ("Gadoua") in Quebec, Canada at the end of the third quarter of 2004. Price increases in key product categories and changes in product sales mix contributed positively to sales growth by approximately 1.7% for the third quarter of 2005.

On a year-to-date basis, sales of $3.4 billion decreased 0.7% compared to 2004, as a result of a sales increase of 5.6% offset by the negative impact of foreign currency translation which reduced Weston Foods reported year-to-date sales growth by approximately 6.3%. Overall volume increased by approximately 3.1%, with approximately 2.1% of this volume growth attributable to the acquisition of Gadoua. Price increases in key product categories and changes in product sales mix contributed positively to sales growth by approximately 2.5% on a year-to-date basis.

Fresh bakery sales continued to experience strong sales growth and contributed positively to overall sales growth in the third quarter and year-to-date driven by both volume growth and price increases. Volume growth was achieved as a result of the 2004 acquisition of Gadoua in Quebec, Canada, the introduction of new and expanded products and the growth in whole grain and private label products, which more than offset volume declines in white flour based branded products and the exit of the *Thomas'* waffle category at the end of the third quarter of 2004.

Sales in the fresh-baked sweet goods category declined in the third quarter and year-to-date as a result of volume decreases, partially offset by sales price increases. This category, primarily sold under the *Entenmann's* brand, continued to experience a challenging sales environment in the quarter, particularly for full-size cake, although volume growth continued in single serve and hand-held products including the impact of the launch of the new *Enten-minis* single serve products during the third quarter of 2005.

Sales growth during the first three quarters of 2005 for both the fresh bakery and fresh-baked sweet goods categories were negatively impacted by the cycling of last year's focus on new low-carb products.

Frozen bakery sales contributed positively to overall sales growth in the third quarter and year-to-date as a result of improvements in product sales mix and price increases. Dairy sales contributed positively to overall sales growth in the third quarter and year-to-date as a result of volume growth, sales price increases and the improvement in sales mix as growth continues to be experienced in value-added products. The biscuit category negatively impacted overall sales growth in the third quarter and year-to-date primarily due to lower sales volume.

Operating Income Weston Foods operating income for the third quarter of $101 million increased 98.0% compared to 2004, impacted positively by 101.2% due to the net incremental effect of restructuring and other charges, which resulted in income of $9 million in 2005 compared to a charge of $44 million incurred in the third quarter of 2004. Foreign currency translation combined with higher stock-based compensation costs net of the impact of related equity derivatives negatively impacted Weston Foods operating income growth by approximately 15.7% during the third quarter.

Operating margin for the third quarter of 2005 improved to 7.5% from 3.7% in 2004 and EBITDA margin improved to 11.0% from 7.1% in 2004. These margins were positively impacted by 0.7% and 1.3% (2004 – negatively impacted by 3.2% and 3.2%), respectively, due to restructuring and other charges.

On a year-to-date basis Weston Foods operating income of $193 million increased 35.9% compared to 2004, impacted positively by 15.5% due to the restructuring and other charges of $31 million incurred in 2005 compared to $44 million in 2004. The negative impact of foreign currency translation combined with higher stock-based compensation costs net of the impact of related equity derivatives negatively impacted Weston Foods operating income growth by approximately 7% on a year-to-date basis. Operating margin for 2005 improved to 5.7% from 4.2% in 2004 and EBITDA margin of 9.0% compared to 7.5% in 2004, impacted negatively by 0.9% and 0.5% (2004 – 1.3% and 1.3%), respectively, due to the restructuring and other charges.

Weston Foods operating income and margin for the third quarter of 2005 and on a year-to-date basis were positively impacted by sales growth, including volume, price and product sales mix improvements, and by the continued benefits being realized from the restructuring and cost reduction activities initiated in 2004 and during the first half of 2005. Operating income for the second quarter of last year included certain incremental costs incurred to support the launch of several new low-carb products. Inflationary cost pressures, related to certain key ingredients and packaging costs as well as higher energy and employee health related benefit costs, continue to challenge Weston Foods operating income and margin growth.

Weston Foods profitability in the United States fresh-baked sweet goods category improved compared to last year, however, challenges remain as a result of changing consumer eating and shopping preferences and a high fixed cost manufacturing and distribution structure.

During the third quarter of 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 will transfer to third party producers or other Weston Foods manufacturing facilities and will be substantially complete by the end of fiscal 2005. As a result of this decision, Weston Foods recognized a $3 million restructuring charge in the third quarter of 2005 related primarily to accelerated depreciation on manufacturing equipment.

During the first quarter of 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 will be phased down as the majority of the production is relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota. Once completed, this initiative is anticipated to result in lowering 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 million over 2005 and 2006 including employee related severance and benefit costs, production equipment relocations, training and other facility start-up related costs. In addition, Weston Foods expects to recognize accelerated depreciation on assets currently held-for-use of approximately $25 million over 2005 and 2006. During the third quarter of 2005, Weston Foods recognized $3 million of restructuring charges and $5 million of accelerated depreciation in connection with this restructuring plan. Also in the third quarter of 2005, Weston Foods recognized a gain of $18 million related to the completed sale and lease-back of the two facilities to be closed pursuant to this restructuring plan. On a year-to-date basis for 2005, Weston Foods recognized $29 million of restructuring charges, $11 million of accelerated depreciation and a gain of $18 million related to the sale and lease-back of the two facilities.

During the first half of 2005, Weston Foods approved plans to consolidate and relocate certain of its administrative offices within North America, which resulted in a $6 million restructuring charge during 2005.

The restructuring charges, accelerated depreciation and gain discussed above were included in restructuring and other charges in the 2005 interim period consolidated statements of earnings.

Subsequent to the third quarter of 2005, Weston Foods approved plans to start construction of a new bakery in the Midwestern United States. This new facility will produce fresh bakery products, including bread and English muffins, and is expected to be in commercial production by the end of 2006.

Further information on Weston Foods restructuring and other charges is provided in Note 2 to the unaudited interim period consolidated financial statements.

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

Food Distribution

During the third quarter, Loblaw continued to execute a number of previously approved transformative changes, including the restructuring of its supply chain network and the reorganizations involving its merchandising, procurement and operations group, the establishment of a new national head office in Brampton, Ontario, which opened in the third quarter of 2005, and the relocation of general merchandise operations from Calgary, Alberta to the new office.

The process of converting back-end systems in western Canada to the same warehouse management systems platform in place throughout the rest of Loblaw, and the start-up of a new general merchandise distribution centre serving eastern Canada, resulted in disruptions to the smooth flow of goods to the stores and consequently negatively impacted third quarter results.

As part of the plan to consolidate Loblaw's supply chain operations nationally and to implement a national information technology platform, a number of warehouse systems conversions in western Canada were scheduled to commence late in the second quarter of 2005 and be completed by year end 2005. Implementation challenges arising from these initiatives were encountered, particularly during the conversion of the Calgary general merchandise distribution centre. Service levels, a measure of distribution centre operating efficiency, fell below normal running rates, resulting in recurring general merchandise out-of-stock positions at retail. This resulted in lost sales and associated operating income. The third quarter also included incremental direct costs relating to the additional handling, storage and movement of inventory in light of these disruptions.

In Ontario, the transfer of the warehouse and distribution activities of general merchandise to a new facility operated by a third party continued into the third quarter of 2005. Complexities are being experienced during the start-up phase and as a result, service levels are not meeting expectations. This has resulted in some out-of-stock positions in Ontario and a delay in the transition of volume into the third party facility from existing Loblaw distribution centres, which, in turn, is placing additional pressure on existing Loblaw distribution centres. A decline in productivity in certain Loblaw distribution centres was also experienced given the recently approved restructuring.

The supply chain disruptions described above resulted in a loss in anticipated sales growth of approximately 0.8% to 1.2% of Loblaw total sales in the quarter when compared to last year. Direct costs associated with the execution of the supply chain initiatives during the third quarter impacted operating income by approximately $20 million. The opportunity cost of earnings on lost sales is incremental to that.

Every effort is being made to address these implementation challenges and resolve them as soon as possible. All further conversions initially scheduled for 2005 have been delayed and will resume upon the satisfactory resolution of the issues previously described.

Loblaw also recorded a charge in the third quarter relating to an audit and proposed assessment by the Canada Revenue Agency ("CRA") 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, Loblaw has 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 million has been recorded in operating income in the third quarter to reflect management's best estimate of all such potential tax liabilities of which management is currently aware. An internal review of the procedures and controls surrounding the process of charging and remitting these taxes has been substantially completed and recommendations are in the process of being implemented to avoid the recurrence of similar charges subsequent to the periods currently accounted for. The ultimate amount paid will depend on the outcome of audits performed by, or settlements reached with the various tax authorities. Management will continue to assess this estimate as progress towards resolution with the various tax authorities is made and will adjust the liability accordingly.

Sales Loblaw sales for the third quarter of $8.7 billion increased 6.4% or $519 million compared to last year, including an increase of 1.7% or $136 million in sales relating to the consolidation of certain independent franchisees as required by AcG 15. All regions across the country experienced sales growth over the prior year.

The following factors further explain the change in sales for the quarter over the prior year:

- as described earlier, certain initiatives resulted in supply chain disruptions and a drop in service levels and in-stock positions causing an estimated reduction in sales growth of approximately 0.8% to 1.2% over last year and a reduction in sales growth in general merchandise from approximately two times that of food to slightly ahead of that of food;
- same-store sales growth during the quarter was flat including the effects of gas bar sales which accounted for 0.7% of the increase in same-store sales offset by a drop in tobacco sales of 0.5%;
- national food price inflation as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI") was approximately 2% with variances by region. Loblaw's calculation of food price inflation which considers Loblaw specific product mix and pricing strategy was reasonably consistent with that of CPI; and
- an increase of 3.2 million square feet of net retail square footage, during the latest four quarters, related to the opening of 81 new corporate and franchised stores and the closure of 68 stores, inclusive of stores which have undergone conversions and major expansions. During the third quarter of 2005, 22 new corporate and franchised stores were opened and 18 stores were closed, resulting in a net increase of 1.0 million square feet or 2.0%.

For the first three quarters of the year, sales of $21.2 billion were 6.7% ahead of last year, including an increase of 1.5% or $291 million in sales relating to the consolidation of certain independent franchisees as required by AcG 15.

The following factors, in addition to the quarterly factors mentioned above, further explain the change in sales year-to-date over the same period in the prior year:

- year-to-date same store sales growth of 0.5% including a positive 0.4% impact from gas bar sales offset by a decline of 0.3% in tobacco sales; and

- an increase in retail square footage during the latest four quarters as noted above. In the first three quarters, 52 new corporate and franchised stores were opened and 48 stores were closed resulting in a net increase of 2.0 million square feet or 4.4% from year end.

Operating Income Loblaw operating income for the third quarter of $377 million decreased 17.0%, or $77 million, compared to last year, impacted negatively by 3.1% due to the higher restructuring and other charges incurred in 2005 as compared to 2004. Operating margin declined to 4.4% from 5.6% in 2004 and EBITDA margin declined to 6.3% from 7.4% in 2004, due to restructuring and other charges, supply chain disruptions, the GST and PST related charges along with promotional pricing activity, product mix and increased general merchandise inventory shrink which were partially offset by buying synergies.

As outlined above, 2005 operating income for the quarter and year-to-date was negatively impacted by the supply chain disruptions and the GST and PST related charges. These charges accounted for a decline in operating income in the quarter and year-to-date of approximately $60 million resulting in a further drop in operating margin of 0.7% for the quarter and 0.3% on a year-to-date basis. In addition, the restructuring and other charges of $17 million in the current quarter accounted for a decline in operating margin of approximately 0.2%.

Operating income for 2005 year-to-date decreased $115 million, or 10.3%, to $1,001 million, and resulted in an operating margin of 4.7% as compared to 5.6% in the corresponding period of 2004. EBITDA margin year-to-date decreased to 6.7% from 7.4% in 2004. During the first three quarters of 2005, Loblaw recorded restructuring and other charges of $82 million of which $60 million was related to the supply chain network reorganization, $20 million related to the office move and reorganization of the operation support functions and $2 million related to certain store closure costs. Further information on Loblaw's restructuring and other charges is provided in Note 2 to the unaudited interim period consolidated financial statements.

The consolidation of certain independent franchisees identified as VIEs for which Loblaw is the primary beneficiary resulted in an increase in the gross profit as retail gross profit is greater than that of wholesale gross profit. This additional gross profit was offset by additional operating expenses and resulted in an immaterial net impact on operating income.

During the first quarter of 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. Costs accrued thus far of $60 million relate primarily to employees whose positions will be directly impacted by the restructuring. Further costs related to fixed asset impairment and accelerated depreciation and closure costs as well as additional employee costs will be recognized as appropriate criteria are met. Total restructuring costs are expected to approximate $90 million by the end of 2007 of which approximately $70 million is expected to be recognized in 2005.

During the third quarter of 2005, employees began relocating to the new national head office facility, allowing for the combination of several administrative and operating offices from across southern Ontario. Loblaw also continued reorganizing its merchandising, procurement and operations groups and completed the transfer of the general merchandise operations from Calgary, Alberta to Ontario. At the end of the third quarter of 2005, $20 million of the total estimated $25 million restructuring cost was recognized. The remaining amount is expected to be substantially recognized by the end of the fourth quarter of this year, and is expected to result in a payback of approximately one year.

CONSOLIDATED FINANCIAL CONDITION

Financial Ratios The Company's net debt (excluding the Exchangeable Debentures) (see Supplementary Financial Information beginning on page 22) to equity ratio for the third quarter of 2005 was 1.12:1 compared to 1.33:1 in the same period of 2004 and 1.26:1 at year end 2004. The improvement in this ratio for the third quarter of 2005 from year end 2004 resulted primarily from the increase in shareholders' equity due to net earnings and the issuance of preferred shares by Weston offset by the impact of translating the Company's investment in self-sustaining foreign operations in the United States due to the appreciation of the Canadian dollar relative to the United States dollar since year end 2004.

Pursuant to the requirements of AcG 15, the consolidated balance sheet as at October 8, 2005 includes bank indebtedness and loans payable of VIEs consolidated by the Company. 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 independent funding trust within the structure finances its activities through the issuance of short term asset-backed notes to third party investors. These loans payable, which totaled approximately $126 million at the end of the third quarter of 2005, 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.

As disclosed in the annual MD&A and in Note 20 to the consolidated financial statements for the year ended December 31, 2004 included in Weston's 2004 Annual Report, 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.

The interest coverage ratio for the third quarter of 2005 increased to 5.4 times compared to 4.4 times in the third quarter of 2004 and the 2005 year-to-date interest coverage ratio improved to 5.1 times compared to 4.6 times in 2004, both impacted by changes in operating income and interest and other financing charges, as discussed above.

The Company's rolling year return on average total assets (see Supplementary Financial Information beginning on page 22) at the end of the third quarter of 2005 of 10.5% was lower than the return of 11.6% in the comparable period of 2004 and the year end 2004 return of 11.4%. The Company's rolling year return on average common shareholders' equity was 15.5% at the end of the third quarter of 2005 compared to 17.4% in the comparable period of 2004 and compared to the year end 2004 return of 14.8%. These returns were negatively impacted by the incremental costs and charges in operating income recorded in the first three quarters of 2005 as discussed above.

Dividends On October 1, 2005, common dividends of $0.36 per common share, preferred dividends of $0.32 per preferred share, Series II, preferred dividends of $0.33 per preferred share, Series III and preferred dividends of $0.21 per preferred share, Series IV were paid as declared by Weston's Board of Directors (the "Board"). On September 15, 2005, preferred dividends of $0.36 per preferred share, Series I were paid as declared by the Board. The quarterly common dividend was maintained at the 2004 dividend rate.

Outstanding Share Capital Weston's outstanding share capital is comprised of common shares and preferred shares. An unlimited number of common shares is authorized and 129.0 million common shares were outstanding at the end of the third quarter of 2005. An unlimited number of preferred shares Series I, Series II, Series III and Series IV are authorized and 9.4 million preferred shares Series I, 10.6 million preferred shares Series II, 8.0 million preferred shares Series III and 8.0 million preferred shares Series IV were outstanding at the end of the third quarter of 2005.

During the second quarter of 2005 Weston issued 8.0 million preferred shares Series III for total proceeds of $194 million. During the third quarter of 2005 Weston issued 8.0 million preferred shares Series IV for total proceeds of $195 million. Further information on the Company's outstanding share capital is provided in Note 11 to the unaudited interim period consolidated financial statements.

During the first quarter of 2005, Weston renewed its Normal Course Issuer Bid ("NCIB") to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 6,451,911 of its common shares, representing approximately 5% of the common shares outstanding. Weston, in accordance with the rules and by-laws of the Toronto Stock Exchange, may purchase its shares at the then market prices of such shares.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities of Continuing Operations Third quarter 2005 cash flows from operating activities were $661 million compared to $419 million in the comparable period of 2004. On a year-to-date basis, cash flows from operating activities were $910 million compared to $559 million in 2004. The improvements for the quarter and on a year-to-date basis are primarily due to improvements in working capital.

On an annual basis, the cash flows from operating activities are expected to fund a large portion of the Company's 2005 funding requirements including the anticipated capital investment activity of approximately $1.4 billion. The investment in non-cash working capital is expected to decline and net earnings before minority interest and depreciation and amortization are expected to increase by the end of the year.

Cash Flows used in Investing Activities of Continuing Operations Third quarter 2005 cash flows used in investing activities were $449 million compared to $499 million in 2004. On a year-to-date basis, cash flows used in investing activities were $598 million compared to $925 million in 2004. The decrease in cash flows used in investing activities on a year-to-date basis of $327 million is primarily due to lower fixed asset purchases and the shortening term to maturity profile of the Company's short term investment portfolio. The shortening term to maturity profile of the Company's short term investment portfolio resulted in a shift from short term investments to cash and cash equivalents and an increase in cash flows from short term investments of $200 million.

Capital investment for the third quarter of 2005 totaled $442 million (2004 – $467 million) and $968 million (2004 – $1,052 million) year-to-date as the Company continues its commitment to maintain and renew its asset base and invest for growth within North America.

During the third quarter of 2005, Loblaw, through its wholly owned subsidiary President's Choice Bank ("PC Bank"), securitized $125 million (2004 – $75 million) of credit card receivables under its securitization program and $225 million (2004 – $202 million) year-to-date, yielding a nominal loss based on the assumptions disclosed in Note 9 of the consolidated financial statements for the year ended December 31, 2004 included in Weston's 2004 Annual Report. PC Bank intends, subject to appropriate approvals and other customary conditions, to proceed with restructuring of its securitization program as a result of the growth in the credit card program.

Cash Flows (used in) from Financing Activities of Continuing Operations Third quarter 2005 cash flows used in financing activities were $236 million compared to $69 million in 2004. On a year-to-date basis, cash flows from financing activities were $219 million compared to $393 million in 2004.

During the first quarter of 2005, Loblaw issued $300 million of 5.90% Medium Term Notes ("MTN") due 2036, under its 2003 Base Shelf Prospectus, to refinance the $100 million of 6.35% Provigo Inc. Debenture that matured in the fourth quarter of 2004 and the $200 million of 6.95% MTN that matured in the first quarter of 2005. Net VIE long term debt issued and retired during the first three quarters of 2005 was not material. In addition, $148 million of the 3% Exchangeable Debentures were exchanged for Domtar Inc. common shares. A corresponding reduction in the investment in Domtar Inc. was recorded.

During the first quarter of 2005, Weston terminated its interest rate swaps with a notional value of $200 million which were designated as a fair value hedge of the $200 million of 5.05% MTN due 2014. The gain realized on the termination of these swaps of $5 million, will be deferred over the remaining term of the initial hedge and recognized in interest expense and other financing charges.

During the second quarter, Weston filed a new base shelf prospectus under which it may issue Preferred Shares and MTN in an aggregate amount not to exceed $1 billion. Under its new base shelf prospectus Weston issued 8.0 million preferred shares Series III for total proceeds of $194 million during the second quarter of 2005 and issued 8.0 million preferred shares Series IV for total proceeds of $195 million during the third quarter of 2005.

Pursuant to its NCIB, Loblaw purchased for cancellation 226,100 of its common shares for $16 million during the third quarter of 2005.

During the second quarter of 2005, Loblaw's 2003 Base Shelf Prospectus expired and a new base shelf prospectus allowing the issue of up to $1 billion of aggregate MTN was filed.

CRITICAL ACCOUNTING ESTIMATES

In addition to the Critical Accounting Estimates disclosed in the MD&A included in Weston's 2004 Annual Report, management has identified the amount for GST and PST recorded in the current quarter to be a critical accounting estimate. During the third quarter of 2005, the Company recorded a charge relating to an audit and proposed assessment by the CRA 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 has 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 million has been recorded in operating income in the third quarter to reflect management's best estimate of such potential tax liabilities of which management is currently aware. The ultimate 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 estimate as progress towards resolution with the various tax authorities is made and will adjust the liability accordingly.

QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP and was reported in Canadian dollars. Each of the quarters presented was 12 weeks in duration except for the third quarter, which was 16 weeks for each of 2005 and 2004, and the fourth quarter of 2003, which was 13 weeks in duration due to the 53 week fiscal year in 2003.

Quarterly Financial Information (1) (unaudited)

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
($ millions except where otherwise indicated)	**2005**	2004	2005	2004	2005	2004	2004	2003
Sales	**$ 9,737**	$ 9,260	$ 7,273	$ 6,915	$ 6,972	$ 6,551	$ 7,072	$ 7,237
Net earnings from continuing operations	**$ 196**	$ 185	$ 179	$ 142	$ 101	$ 125	$ 154	$ 258
Net earnings (loss)	**$ 196**	$ 168	$ 153	$ 140	$ 100	$ 121	$ (1)	$ 252
Net earnings from continuing operations per common share ($)								
Basic	**$ 1.41**	$ 1.37	$ 1.33	$ 1.06	$ .73	$ .91	$ 1.15	$ 1.92
Diluted	**$ 1.41**	$ 1.37	$ 1.33	$ 1.06	$ .73	$ .91	$ 1.14	$ 1.91
Net earnings (loss) per common share ($)								
Basic	**$ 1.41**	$ 1.24	$ 1.13	$ 1.04	$ .72	$ .88	$ (.05)	$ 1.87
Diluted	**$ 1.41**	$ 1.24	$ 1.13	$ 1.04	$ .72	$ .88	$ (.06)	$ 1.86

(1) The implementation of Emerging Issues Committee Abstract 144, "Accounting by a Customer (Including a Reseller) for Certain Consideration received from a Vendor", ("EIC 144") on a retroactive basis with restatement did not result in a material change in the quarterly net earnings. During the first quarter of 2005, the Company implemented AcG 15 retroactively without restatement as described in the section "New Accounting Standards" below.

Continued sales growth in the third quarter of 2005 has been positively impacted by continued sales improvement in Loblaw and by pricing and mix improvements at Weston Foods, offset by the negative impact of foreign currency translation at Weston Foods. Effective the first quarter of 2005, the Company adopted AcG 15 retroactively without restatement which resulted in an increase in sales of approximately 1.5% for the third quarter and 1.3% year-to-date and no material impact on net earnings.

The overall increase in net earnings for the first three quarters of 2005 was impacted as follows:

- positively by operating margin improvements at Weston Foods due to sales growth combined with the benefits being realized from restructuring and cost reduction activities initiated in 2004 and during the first half of 2005;

- negatively by the impact of restructuring and other charges incurred by Weston Foods and Loblaw; and
- negatively by Loblaw's supply chain disruptions and GST and PST related charges.

NEW ACCOUNTING STANDARDS

Effective January 1, 2005, the Company implemented the following accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

- Accounting Guideline 15, "Consolidation of Variable Interest Entities", issued by the CICA in June 2003 and amended in September 2004 requires the consolidation of certain entities that are subject to control on a basis other than through ownership of a majority of voting interests.

  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.

  AcG 15 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 entitle it to receive a majority of the VIE's expected residual returns or both.

  Prior to AcG 15, the Company consolidated all entities that it controlled through ownership of a majority of voting interests. 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 VIEs for which it is the primary beneficiary.

  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 also may 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. The amount of costs incurred by the third party in operating this facility were previously recorded in the Company's consolidated financial statements as a result of its fees for service arrangements with the third party. 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.

Accordingly, the Company has included the results of these independent franchisees and this third party entity that provides distribution and warehousing services in its unaudited interim period 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

	Consolidated balance sheet as at January 1, 2005 before AcG 15 impact	Impact of the implementation of AcG 15	Consolidated balance sheet as at January 1, 2005 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	285	4	289
Total current assets	4,580	29	4,609
Fixed assets	8,256	136	8,392
Goodwill and intangible assets	3,456	3	3,459
Other assets	1,612	(51)	1,561
Total assets	$ 17,904	$ 117	$ 18,021
Total current liabilities	$ 4,479	$ 48	$ 4,527
Long term debt	6,004	96	6,100
Other liabilities	975	(8)	967
Minority interest	2,066	(1)	2,065
Total liabilities	13,524	135	13,659
Common share capital	614		614
Retained earnings	4,170	(18)	4,152
Cumulative foreign currency translation adjustment	(404)		(404)
Total liabilities and shareholders' equity	$ 17,904	$ 117	$ 18,021

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 million (net of income taxes of $12 million and minority interest of $11 million) 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.

The impact from the consolidation of these VIEs on the consolidated balance sheet as at October 8, 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 40 weeks ended October 8, 2005 was predominantly an increase in sales. The impact on net earnings for the third quarter and year-to-date 2005 was not material.

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. 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 the Off Balance Sheet Arrangement section of the annual MD&A and in Notes 9 and 20 to the consolidated financial statements for the year ended December 31, 2004 included in Weston's 2004 Annual Report.

- EIC Abstract 150, "Determining Whether an Arrangement Contains a Lease" ("EIC 150"), addresses arrangements comprising a transaction or a series of transactions that do not take the legal form of a lease but convey a right to use a tangible asset in return for a payment or a series of payments. EIC 150 provides guidance for determining whether these types of arrangements contain a lease within the scope of CICA section 3065, "Leases", and should be accounted for accordingly. The assessment should be based on whether the fulfillment of the arrangement is dependent on the use of specific tangible assets and whether the arrangement conveys the right to control the use of the tangible assets. This assessment should be made at inception of the arrangement and only reassessed if certain conditions are met. EIC 150 is effective for arrangements entered into or modified as of the beginning of the first quarter of 2005 and did not have any impact in the first three quarters of 2005. The Company will continue to monitor whether the implications of EIC 150 are applicable to transactions undertaken by the Company.

- EIC Abstract 154, "Accounting for Pre-Existing Relationships Between the Parties of a Business Combination" ("EIC 154"), issued on May 31, 2005, requires that a business combination between parties that have a pre-existing relationship be evaluated to determine if a settlement of a pre-existing contract has occurred which would require separate accounting from the business combination. The settlement of the pre-existing contract should be measured at the settlement amount as defined within the standard. In addition, EIC 154 requires that certain reacquired rights, including the rights to the acquirer's trade name under a franchise agreement, be recognized as an intangible asset separate from goodwill.

  The Company has determined that the acquisitions by the Company of independent franchisees are within the scope of EIC 154. The adoption of EIC 154 by the Company on a prospective basis did not have a material impact on net earnings.

OUTLOOK

The outlook for the remainder of the year for Weston Foods is for continued growth in sales as a result of continued volume, price and product mix improvements. Operating income growth is expected to continue, with operating margins being pressured by underlying cost inflation, particularly with respect to certain materials, energy and people related benefits costs.

Loblaw remains confident in its long-term strategy and in its ability to implement it. The restructuring of the supply chain network and other transformative initiatives were undertaken from a position of strength to fortify Loblaw's long term competitive position and reflects its focus on managing the business for the long term. The underlying business, its position in the marketplace and its financial condition remain strong. The challenges encountered in the supply chain network involve matters of execution. These initiatives will continue to cause sales and earnings fluctuations in the near term. Loblaw believes that these initiatives, like other transformative changes, will make the expected positive contribution to its future performance.

The consolidated results continue to reflect the transformational changes undertaken by both the Weston Foods and Loblaw operating businesses in order to position them for strong growth in the future.

ADDITIONAL INFORMATION

Additional information, including reports, information circulars and annual information forms for both Weston and Loblaw have been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

SUPPLEMENTARY FINANCIAL INFORMATION

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

EBITDA The Company believes EBITDA is useful as an indicator of its operational performance and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program. The following tables reconcile EBITDA to Canadian GAAP measures reported in the unaudited interim period consolidated statements of earnings:

	16 Weeks Ended Oct. 8, 2005			16 Weeks Ended Oct. 9, 2004 restated (2)		
($ millions)	**Weston Foods**	**Food Distribution**	**Consolidated**	Weston Foods	Food Distribution	Consolidated
Operating income	**$ 101**	**$ 377**	**$ 478**	$ 51	$ 454	$ 505
Depreciation and amortization	**39**	**172**	**211**	45	146	191
Accelerated depreciation (1)	**8**		**8**			
EBITDA	**$ 148**	**$ 549**	**$ 697**	$ 96	$ 600	$ 696

	40 Weeks Ended Oct. 8, 2005			40 Weeks Ended Oct. 9, 2004 restated (2)		
($ millions)	**Weston Foods**	**Food Distribution**	**Consolidated**	Weston Foods	Food Distribution	Consolidated
Operating income	**$ 193**	**$ 1,001**	**$ 1,194**	$ 142	$ 1,116	$ 1,258
Depreciation and amortization	**98**	**418**	**516**	113	356	469
Accelerated depreciation (1)	**16**	**2**	**18**			
EBITDA	**$ 307**	**$ 1,421**	**$ 1,728**	$ 255	$ 1,472	$ 1,727

(1) Accelerated depreciation is included in restructuring and other charges in the consolidated statements of earnings as discussed in note 2 to the unaudited interim period consolidated financial statements.

(2) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to discontinuing the Fisheries segment as discussed in notes 1 and 6 to the unaudited interim period consolidated financial statements.

The following table provides additional financial information:

	As at	
	Oct. 8, 2005	Oct. 9, 2004
Market price per common share ($)	**$ 102.80**	$ 96.40
Actual common shares outstanding (in millions)	**129.0**	128.9
Weighted average common shares outstanding (in millions)	**129.0**	128.9

Net Debt The Company calculates net debt as the sum of long term debt and short term debt less cash, cash equivalents and short term investments and believes this measure is useful in evaluating the amount of leverage employed by the Company. The Company calculates net debt excluding exchangeable debentures as net debt (as calculated above) less exchangeable debentures and believes this measure is also useful in evaluating the amount of leverage employed by the Company as the exchangeable debentures can be settled with the Company's investment in Domtar common shares included in other assets. The following table reconciles net debt and net debt excluding exchangeable debentures to Canadian GAAP measures reported in the unaudited interim period consolidated balance sheets:

	As at	
($ millions)	**Oct. 8, 2005**	Oct. 9, 2004 restated (1)
Bank indebtedness	**$ 105**	$ 76
Commercial paper	**883**	1,252
Short term bank loans	**129**	94
Long term debt due within one year	**159**	310
Long term debt	**6,124**	6,023
Less:		
Cash and cash equivalents	**1,538**	932
Short term investments	**59**	401
Net debt	**5,803**	6,422
Less: Exchangeable debentures	**225**	373
Net debt excluding exchangeable debentures	**$ 5,578**	$ 6,049

(1) Certain prior year's information was restated due to discontinuing the Fisheries segment as discussed in note 6 to the unaudited interim period consolidated financial statements.

Total Assets The Company uses the return on average total assets ratio to measure the performance of operating assets and therefore excludes cash, cash equivalents, short term investments, assets held for sale, and the Domtar investment from the total assets used in this measure. The Company believes this results in a more accurate measure of the performance of its operating assets. The following table reconciles total assets used in the return on average total assets measure to Canadian GAAP measures reported in the unaudited interim period consolidated balance sheets:

	As at	
($ millions)	**Oct. 8, 2005**	Oct. 9, 2004 restated (1)
Total assets	**$ 18,509**	$ 17,897
Less:		
Cash and cash equivalents	**1,538**	932
Short term investments	**59**	401
Current assets of operations held for sale		178
Long term assets of operations held for sale	**12**	85
Domtar investment	**220**	365
Total assets	**$ 16,680**	$ 15,936

(1) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to discontinuing the Fisheries segment as discussed in note 6 to the unaudited interim period consolidated financial statements.

Consolidated Statements of Earnings

(unaudited)	16 Weeks Ended		40 Weeks Ended	
($ millions except where otherwise indicated)	**Oct. 8, 2005**	Oct. 9, 2004 restated (note 6)	**Oct. 8, 2005**	Oct. 9, 2004 restated (note 6)
Sales	**$ 9,737**	$ 9,260	**$ 23,982**	$ 22,726
Operating Expenses				
Cost of sales, selling and administrative expenses	**9,000**	8,517	**22,119**	20,944
Depreciation and amortization	**211**	191	**516**	469
Restructuring and other charges (note 2)	**8**	47	**113**	55
Goods & Services Tax and provincial sales taxes (note 14)	**40**		**40**	
	9,259	8,755	**22,788**	21,468
Operating Income	**478**	505	**1,194**	1,258
Interest Expense and Other Financing Charges (note 3)	**88**	116	**234**	274
Earnings from Continuing Operations Before the Following:	**390**	389	**960**	984
Income Taxes (note 4)	**117**	106	**273**	291
	273	283	**687**	693
Minority Interest	**77**	98	**211**	241
Net Earnings from Continuing Operations	**196**	185	**476**	452
Discontinued Operations (note 6)		(17)	**(27)**	(23)
Net Earnings	**$ 196**	$ 168	**$ 449**	$ 429
Net Earnings per Common Share ($) - Basic & Diluted				
Continuing Operations (note 5)	**$ 1.41**	$ 1.37	**$ 3.47**	$ 3.34
Discontinued Operations		$ (0.13)	**$ (0.21)**	$ (0.18)
Net Earnings	**$ 1.41**	$ 1.24	**$ 3.26**	$ 3.16

See accompanying notes to the unaudited interim period consolidated financial statements.

Consolidated Statements of Retained Earnings

(unaudited)	40 Weeks Ended	
($ millions except where otherwise indicated)	**Oct. 8, 2005**	Oct. 9, 2004
Retained Earnings, Beginning of Period	**$ 4,170**	$ 4,013
Impact of implementing new accounting standard (note 1)	**(18)**	
Retained Earnings, Beginning of Period as Restated	**$ 4,152**	$ 4,013
Net earnings	**449**	429
Premium on common shares purchased for cancellation		(58)
Dividends declared		
Per common share – $1.08 (2004 – $1.08)	**(139)**	(139)
Per preferred share – Series I – $1.09 (2004 – $1.09)	**(10)**	(10)
– Series II – $0.97 (2004 – $0.97)	**(10)**	(10)
– Series III – $0.59	**(5)**	
– Series IV – $0.21	**(2)**	
Retained Earnings, End of Period	**$ 4,435**	$ 4,225

See accompanying notes to the unaudited interim period consolidated financial statements.

Consolidated Balance Sheets

($ millions)	As at Oct. 8, 2005 (unaudited)	As at Dec. 31, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 1,538**	$ 1,008
Short term investments	**59**	388
Accounts receivable (note 7)	**836**	920
Inventories	**2,130**	1,979
Income taxes	**24**	
Future income taxes	**170**	175
Prepaid expenses and other assets	**82**	48
Current assets of operations held for sale (note 6)		62
Total Current Assets	**4,839**	4,580
Fixed Assets	**8,739**	8,256
Goodwill and Intangible Assets (note 8)	**3,387**	3,456
Future Income Taxes	**121**	107
Other Assets	**1,411**	1,494
Long Term Assets of Operations Held for Sale (note 6)	**12**	11
Total Assets	**$ 18,509**	$ 17,904
LIABILITIES		
Current Liabilities		
Bank indebtedness	**$ 105**	$ 123
Commercial paper	**883**	840
Accounts payable and accrued liabilities	**2,975**	3,079
Income taxes		91
Short term bank loans	**129**	102
Long term debt due within one year (note 10)	**159**	222
Current liabilities of operations held for sale (note 6)	**8**	22
Total Current Liabilities	**4,259**	4,479
Long Term Debt (note 10)	**6,124**	6,004
Future Income Taxes	**328**	282
Other Liabilities	**638**	693
Minority Interest	**2,199**	2,066
Total Liabilities	**13,548**	13,524
SHAREHOLDERS' EQUITY		
Share Capital (notes 11 & 12)	**1,012**	614
Retained Earnings	**4,435**	4,170
Cumulative Foreign Currency Translation Adjustment	**(486)**	(404)
Total Shareholders' Equity	**4,961**	4,380
Total Liabilities and Shareholders' Equity	**$ 18,509**	$ 17,904

See accompanying notes to the unaudited interim period consolidated financial statements.

Consolidated Cash Flow Statements

(unaudited)	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 8, 2005**	Oct. 9, 2004 restated (note 6)	**Oct. 8, 2005**	Oct. 9, 2004 restated (note 6)
Operating Activities				
Net earnings from continuing operations before minority interest	**$ 273**	$ 283	**$ 687**	$ 693
Depreciation and amortization	**211**	191	**516**	469
Restructuring and other charges (note 2)	**8**	47	**113**	55
Goods and Services Tax and provincial sales taxes	**40**		**40**	
Future income taxes	**39**	10	**56**	34
Change in non-cash working capital	**91**	(113)	**(449)**	(706)
Other	**(1)**	1	**(53)**	14
Cash Flows from Operating Activities of Continuing Operations	**661**	419	**910**	559
Investing Activities				
Fixed asset purchases	**(442)**	(467)	**(968)**	(1,052)
Short term investments	**(26)**	24	**329**	129
Proceeds on termination of financial derivatives (note 13)			**5**	
Proceeds from fixed asset sales	**74**	23	**120**	53
Business acquisition		(46)		(46)
Credit card receivables, after securitization (note 7)	**17**	11	**71**	66
Franchise investments and other receivables	**(31)**	(23)	**(65)**	(27)
Other	**(41)**	(21)	**(90)**	(48)
Cash Flows used in Investing Activities of Continuing Operations	**(449)**	(499)	**(598)**	(925)
Financing Activities				
Bank indebtedness	**(29)**	(50)	**(38)**	(30)
Commercial paper	**(254)**	113	**43**	556
Short term bank loans – Issued	**9**	9	**27**	27
Long term debt (note 10) – Issued	**21**		**329**	400
– Retired	**(12)**		**(241)**	(202)
Share capital – Issued (notes 11 & 12)	**195**		**394**	
– Retired				(59)
Subsidiary share capital – Issued (note 12)			**1**	
– Retired (note 8)	**(16)**		**(16)**	(35)
Dividends – To shareholders	**(110)**	(102)	**(216)**	(201)
– To minority shareholders	**(44)**	(40)	**(66)**	(60)
Other	**4**	1	**2**	(3)
Cash Flows (used in) from Financing Activities of Continuing Operations	**(236)**	(69)	**219**	393
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents	**(71)**	(96)	**(41)**	(39)
Initial impact of Variable Interest Entities			**20**	
Cash Flows from Continuing Operations	**(95)**	(245)	**510**	(12)
Cash Flows from (used in) Discontinued Operations (note 6)	**22**	(6)	**20**	(21)
Change in Cash and Cash Equivalents	**(73)**	(251)	**530**	(33)
Cash and Cash Equivalents, Beginning of Period	**1,611**	1,183	**1,008**	965
Cash and Cash Equivalents, End of Period	**$ 1,538**	$ 932	**$ 1,538**	$ 932

See accompanying notes to the unaudited interim period consolidated financial statements.

Notes to the Unaudited Interim Period Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited interim period consolidated financial statements (the "interim financial statements") were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of application with those used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2004, except for the changes described below. Under Canadian GAAP, additional disclosure is required in annual financial statements and accordingly the unaudited interim period consolidated financial statements should be read together with the audited annual consolidated financial statements and the accompanying notes included in George Weston Limited's 2004 Annual Report.

Basis of Consolidation

The interim 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 was 61.9% at the end of the third quarter of 2005 and 61.8% at year end 2004. Effective January 1, 2005, the Company is 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.

Variable Interest Entities

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 entitle it to receive a majority of the VIE's expected residual returns or both.

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 VIEs for which it is the primary beneficiary.

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 also may 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. The amount of costs incurred by the third party in operating this facility were previously recorded in the Company's consolidated financial statements as a result of its fees for service arrangements with the third party. 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.

Accordingly, the Company has included the results of these independent franchisees and this third party entity that provides distribution and warehousing services in its unaudited interim period 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

	Consolidated balance sheet as at January 1, 2005 before AcG 15 impact	Impact of the implementation of AcG 15	Consolidated balance sheet as at January 1, 2005 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	285	4	289
Total current assets	4,580	29	4,609
Fixed assets	8,256	136	8,392
Goodwill and intangible assets	3,456	3	3,459
Other assets	1,612	(51)	1,561
Total assets	$ 17,904	$ 117	$ 18,021
Total current liabilities	$ 4,479	$ 48	$ 4,527
Long term debt	6,004	96	6,100
Other liabilities	975	(8)	967
Minority interest	2,066	(1)	2,065
Total liabilities	13,524	135	13,659
Common share capital	614		614
Retained earnings	4,170	(18)	4,152
Cumulative foreign currency translation adjustment	(404)		(404)
Total liabilities and shareholders' equity	$ 17,904	$ 117	$ 18,021

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 million (net of income taxes of $12 million and minority interest of $11 million) 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.

The impact from the consolidation of these VIEs on the consolidated balance sheet as at October 8, 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 was predominantly an increase in sales of 1.5% for the third quarter of 2005 and 1.3% for the first three quarters of 2005. The impact on net earnings for the third quarter and the first three quarters of 2005 was not material.

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 President's Choice Bank ("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 9 and 20 to Weston's annual audited consolidated financial statements for the year ended December 31, 2004.

Use of Estimates and Assumptions

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

Certain estimates, such as those related to valuation of inventories, goodwill, indefinite life intangible assets, income taxes, 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 period's information was reclassified to conform with the current period's presentation.

Notes to the Unaudited Interim Period Consolidated Financial Statements

2. Restructuring and Other Charges

The following table summarizes the restructuring and other charges:

	16 Weeks Ended					
			Oct. 8, 2005			Oct. 9, 2004
($ millions)	**Weston Foods**	**Food Distribution**	**Total**	Weston Foods	Food Distribution	Total
Fixed Asset Impairment		**$ 4**	**$ 4**	$ 34	$ 3	$ 37
Accelerated Depreciation	**$ 8**		**8**			
Gain on Sale of Fixed Assets	**(18)**		**(18)**			
Employee Termination Benefits	**(1)**	**2**	**1**	6		6
Site Closing Costs and Other	**2**	**11**	**13**	4		4
	$ (9)	**$ 17**	**$ 8**	$ 44	$ 3	$ 47

	40 Weeks Ended					
			Oct. 8, 2005			Oct. 9, 2004
($ millions)	**Weston Foods**	**Food Distribution**	**Total**	Weston Foods	Food Distribution	Total
Fixed Asset Impairment		**$ 10**	**$ 10**	$ 34	$ 10	$ 44
Accelerated Depreciation	**$ 16**	**2**	**18**			
Gain on Sale of Fixed Assets	**(18)**		**(18)**			
Employee Termination Benefits	**28**	**54**	**82**	6		6
Site Closing Costs and Other	**5**	**16**	**21**	4		4
Special Voluntary Early Retirement Program					1	1
	$ 31	**$ 82**	**$ 113**	$ 44	$ 11	$ 55

Weston Foods

During the third quarter of 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 will transfer to third party producers or other Weston Foods manufacturing facilities and will be substantially complete by the end of fiscal 2005. As a result of this decision, Weston Foods recognized a $3 million restructuring charge in the third quarter of 2005 related primarily to accelerated depreciation on manufacturing equipment.

During the first quarter of 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 will be phased down as the majority of the production is relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota. Once completed, this initiative is anticipated to result in lowering 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 million over 2005 and 2006 including employee related severance and benefit costs, production equipment relocations, training and other facility start-up related costs. In addition, Weston Foods expects to recognize accelerated depreciation on assets currently held-for-use of approximately $25 million over 2005 and 2006. During the third quarter of 2005, Weston Foods recognized $3 million of restructuring charges and $5 million of accelerated depreciation in connection with this restructuring plan. Also in the third quarter of 2005, Weston Foods recognized a gain of $18 million related to the completed sale and lease-back of the two facilities to be closed associated with this restructuring plan. On a year-to-date basis for 2005, Weston Foods recognized $29 million of restructuring charges, $11 million of accelerated depreciation and a gain of $18 million related to the sale and lease-back of the two facilities. Weston Foods received total proceeds of $47 million related to the sale of the two biscuit facilities.

During the first half of 2005, Weston Foods approved plans to consolidate and relocate certain of its administrative offices within North America, which have resulted in a $6 million restructuring charge during 2005.

During the third quarter of 2005, Weston Foods recognized restructuring income of $2 million (year-to-date – $2 million) and accelerated depreciation of $2 million on a year-to-date basis related to restructuring plans approved in 2004.

Year-to-date 2005, approximately $8 million of severance and other cash exit costs were paid related to restructuring activities.

Food Distribution

During the first quarter of 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, 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 operated by a third party in Pickering, Ontario, is in progress and is expected to be substantially completed by the end of 2005. In addition, a new distribution centre dedicated to food distribution is expected to open in the second quarter of 2007 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 the third quarter of 2007 and the total restructuring cost under this plan is estimated to be approximately $90 million. Of the $90 million total estimated cost, approximately $57 million is attributable to employee termination benefits which include severance and additional pension costs resulting from the termination of employees, $13 million to fixed asset impairment and accelerated depreciation of assets relating to this restructuring activity and $20 million to site closing and other costs directly attributable to the restructuring plan. In the third quarter of 2005, Loblaw recognized an additional $6 million of restructuring costs resulting from this plan. The year-to-date charge of $60 million is composed of $47 million for employee termination benefits resulting from planned involuntary terminations and $13 million of other costs directly associated with these initiatives.

Loblaw is completing its plan to consolidate several administrative and operating offices from across southern Ontario to a new office facility in Brampton, Ontario and to reorganize the merchandising, procurement and operations groups including the transfer of the general merchandise operations from Calgary, Alberta to the new office facility. As a result, total estimated costs of $25 million will be recognized for costs relating to employee relocations and severance benefits, the majority of which were voluntary. The charge recognized in the third quarter of 2005 was $11 million. The year-to-date charge of $20 million is composed of $7 million for employee termination benefits resulting from voluntary termination benefits, employee outplacement assistance costs and $13 million of other costs directly associated with these initiatives. Loblaw expects to substantially complete these restructuring activities by the fourth quarter of this year.

In addition, Food Distribution recognized fixed asset impairment charges of $2 million (2004 – $10 million) year-to-date as a result of an evaluation of the carrying value of fixed assets upon the occurrence of a change in circumstances, including a commitment to close, relocate or convert a store.

Year-to-date 2005, approximately $24 million of severance and other cash exit costs were paid related to the above restructuring activities.

3. Interest Expense and Other Financing Charges

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 8, 2005**	Oct. 9, 2004	**Oct. 8, 2005**	Oct. 9, 2004
Interest on long term debt	**$ 122**	$ 129	**$ 312**	$ 317
Interest on financial derivative instruments	**2**	(12)	**(3)**	(23)
Other financing charges (1)	**(20)**	12	**(43)**	3
Net short term interest	**(9)**	(7)	**(15)**	(7)
Capitalized to fixed assets	**(7)**	(6)	**(17)**	(16)
Interest expense and other financing charges	**$ 88**	$ 116	**$ 234**	$ 274

(1) Other financing charges for the third quarter and year-to-date 2005 includes income of $14 million (2004 – charge of $18 million) and $28 million (2004 – charge of $18 million), respectively, related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares ("underlying Loblaw shares") which was entered into during 2001 and matures in 2031. The Company began to recognize this non-cash charge prospectively in interest and other financing charges during the third quarter of 2004 due to the implementation of the amendment to Emerging Issues Abstract 56 "Exchangeable Debentures" ("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 $6 million (2004 – $6 million) for the third quarter and income of $15 million (2004 – $15 million) on a year-to-date basis related to the forward accretion income net of the forward fee associated with Weston's forward sale agreement.

Net interest paid in the third quarter and year-to-date was $90 million and $281 million (2004 – $62 million and $260 million), respectively.

4. Income Taxes

Net income taxes paid in the third quarter and year-to-date were $41 million and $288 million (2004 – $98 million and $360 million), respectively.

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

($ millions except where otherwise indicated)	16 Weeks Ended Oct. 8, 2005	16 Weeks Ended Oct. 9, 2004 restated (note 6)	40 Weeks Ended Oct. 8, 2005	40 Weeks Ended Oct. 9, 2004 restated (note 6)
Net earnings from continuing operations	**$ 196**	$ 185	**$ 476**	$ 452
Prescribed dividends on preferred shares	**(14)**	(8)	**(28)**	(21)
Net earnings from continuing operations available to common shareholders	**$ 182**	$ 177	**$ 448**	$ 431
Weighted average common shares outstanding (in millions)	**129.0**	128.9	**129.0**	128.9
Dilutive effect of stock-based compensation (in millions) (1)	**.2**	.2	**.2**	.3
Diluted weighted average common shares outstanding (in millions)	**129.2**	129.1	**129.2**	129.2
Basic and diluted net earnings from continuing operations per common share ($)	**$ 1.41**	$ 1.37	**$ 3.47**	$ 3.34

(1) At the end of the third quarter of 2005, 584,755 stock options at an exercise price of $111.02 per common share were outstanding but were not recognized in the computation of diluted net earnings per common share because the options' exercise price was greater than the average market price of the common shares for the quarter and year-to-date 2005. 193,000 stock options at an exercise price of $100.00 per common share were outstanding at the end of the third quarter of 2004 but were not recognized in the computation of diluted net earnings per common share because the options' exercise price was greater than the average market price of the common shares for the third quarter and year-to-date 2004. In addition, 663,594 stock options at an exercise price of $93.35 per common share were outstanding at the end of the third quarter of 2004 but not recognized in the computation of diluted net earnings per common share because the options' exercise price were greater than the average market price of the common shares for the third quarter of 2004.

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

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

Notes to the Unaudited Interim Period Consolidated Financial Statements

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

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 8, 2005**	Oct. 9, 2004	**Oct. 8, 2005**	Oct. 9, 2004
Sales	**$ 8**	$ 57	**$ 79**	$ 125
Operating loss		10	**4**	19
Loss on disposal		9	**28**	9
Loss before the following:		19	**32**	28
Income tax recovery		2	**5**	5
Loss from discontinued operations	**$ -**	$ 17	**$ 27**	$ 23

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

	As at	
($ millions)	**Oct. 8, 2005**	Dec. 31, 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	**$ 8**	$ 22

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

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 8, 2005**	Oct. 9, 2004	**Oct. 8, 2005**	Oct. 9, 2004
Cash flows used in operations	**$ (4)**	$ (23)	**$ (5)**	$ (26)
Cash flows from investing	**26**	18	**25**	7
Cash flows used in financing		(1)		(2)
Cash flows from (used in) discontinued operations	**$ 22**	$ (6)	**$ 20**	$ (21)

7. Credit Card Receivables

During the third quarter of 2005, Loblaw, through its wholly owned subsidiary President's Choice Bank, securitized $125 million (2004 – $75 million) of credit card receivables, under its securitization program and $225 million (2004 – $202 million) year-to-date, yielding a nominal net loss (2004 – gain).

	As at	
($ millions)	**Oct. 8, 2005**	Dec. 31, 2004
Credit card receivables	**$ 1,103**	$ 950
Amount securitized	**(1,010)**	(785)
Net credit card receivables	**$ 93**	$ 165

8. Goodwill and Intangible Assets

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

	As at			
			Oct. 8, 2005	Dec. 31, 2004
($ millions)	**Weston Foods**	**Food Distribution**	**Total**	Total
Goodwill, beginning of year	**$ 1,203**	**$ 1,754**	**$ 2,957**	$ 2,993
Goodwill acquired during the period		**14**	**14**	51
Adjusted purchase price allocation (1)		**(41)**	**(41)**	
Impact of foreign currency translation	**(29)**		**(29)**	(87)
Goodwill, end of period	**1,174**	**1,727**	**2,901**	2,957
Trademarks and brand names (2)	**469**		**469**	482
Other intangible assets	**17**		**17**	17
Goodwill and intangible assets	**$ 1,660**	**$ 1,727**	**$ 3,387**	$ 3,456

(1) The 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) Includes the negative impact of foreign currency translation of $12 million (2004 – $38 million).

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

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

Pursuant to the requirements of AcG 15, the consolidated balance sheet as at October 8, 2005 includes goodwill of Loblaw's independent franchisees of $4 million.

9. Employee Future Benefits

The Company's total net benefit plan cost recognized in operating income was $59 million and $151 million (2004 – $63 million and $158 million) for the third quarter of 2005 and year-to-date 2005 respectively. The total net benefit plan cost included costs for the Company's defined benefit pension and other benefit plans, defined contribution pension plans and multi-employer pension plans.

10. Long Term Debt

During the first quarter of 2005, Loblaw issued $300 million of 5.90% Medium Term Notes ("MTN") due 2036, under its 2003 Base Shelf Prospectus, to refinance the $100 million of 6.35% Provigo Inc. Debenture that matured in the fourth quarter of 2004 and the $200 million of 6.95% MTN that matured in the first quarter of 2005. In addition, during the first three quarters of 2005, $148 million of the 3% Exchangeable Debentures were exchanged for Domtar Inc. common shares. A corresponding reduction in the investment in Domtar Inc. was recorded.

Pursuant to the requirements of AcG 15, the consolidated balance sheet as at October 8, 2005 includes $126 million ($24 million of which is due within one year) of loans payable of VIEs consolidated by the Company. 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 inventory and fixed assets, consisting mainly of fixturing and equipment. The independent funding trust within the structure finances its activities through the issuance of short term asset-backed notes to third party investors. 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.

As disclosed in Note 20 to the annual audited consolidated financial statements for the year ended December 31, 2004, 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 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.

11. Share Capital

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

During the second quarter of 2005, Weston filed a new base shelf prospectus under which it may issue Preferred Shares and MTN in an aggregate amount not to exceed $1 billion. 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. On or after July 1, 2010, 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 the third quarter of 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. On or after October 1, 2010, 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.

12. Stock-Based Compensation

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

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 8, 2005**	Oct. 9, 2004	**Oct. 8, 2005**	Oct. 9, 2004
Stock option plans/share appreciation right plan/(income) expense	**$ (10)**	$ 12	**$ (6)**	$ (17)
Equity derivatives loss (gain)	**15**	(17)	**21**	31
Restricted share unit plan expense	**4**		**9**	
Net stock-based compensation cost	**$ 9**	$ (5)	**$ 24**	$ 14

During the first three quarters of 2005, Weston issued 124,647 (2004 – 5,604) common shares for cash consideration of $5 million (2004 – $.3 million) on the exercise of stock options and paid the share appreciation value of $8 million (2004 – $7 million) on the exercise of 192,238 (2004 – 156,700) stock options and share appreciation rights. In addition, 28,777 (2004 – 40,760) stock options and share appreciation rights were forfeited or cancelled during the first three quarters of 2005. Loblaw issued 25,000 common shares for cash consideration of $0.9 million on the exercise of stock options for which it had recorded a stock-based compensation liability of $1 million and paid the share appreciation value of $40 million (2004 – $18 million) on the exercise of 1,076,638 (2004 – 602,334) stock options. In addition, 133,761 (2004 – 76,031) of Loblaw's stock options were forfeited or cancelled during the first three quarters of 2005. During the third quarter of 2005, Loblaw granted 29,120 stock options with a weighted average exercise price of $69.75 per common share to 2 employees, granted 66,255 stock options with a weighted average exercise price of $72.95 per common share during the second quarter to 3 employees and 2,152,252 stock options with a weighted average exercise price of $69.63 per common share during the first quarter to 231 employees under its existing stock option plan.

During the second quarter of 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 and granted 371,538 stock options to 105 employees at a weighted average exercise price of $111.02 per common share under its existing stock option plan which allows for settlement in cash at the option of the employee.

During the second quarter 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 stock price volatility of 17.1% and a weighted average expected option life of 3 years.

At the end of the third quarter of 2005, a total of 2,093,150 (2004 – 1,802,030) stock options and share appreciation rights were outstanding, which represented approximately 1.6% (2004 – 1.4%) of Weston's issued and outstanding common shares and was within the Company's guideline of 5%.

Restricted Share Unit ("RSU") Plan

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

Compensation cost is recorded in operating income for each RSU granted equal to the market value of a Weston or Loblaw common share at the Award Date prorated over the vesting period and is adjusted for changes in the market value until the vesting date. The cumulative effect of the change in market value is recognized in the period of change.

During the second quarter of 2005, Weston granted 142,685 RSUs to 183 employees. In addition, 100 RSUs were forfeited or cancelled during the third quarter of 2005. During the third quarter of 2005, Loblaw granted 5,096 RSUs to 2 employees and during the first quarter of 2005, granted 376,645 RSUs to 231 employees.

13. Financial Instruments

During the first quarter of 2005, Weston terminated its interest rate swaps with a notional value of $200 million which were designated as a fair value hedge of the $200 million of 5.05% MTN due 2014. The gain realized on the termination of these swaps of $5 million, will be deferred over the remaining term of the initial hedge and recognized in interest expense and other financing charges.

14. Goods and Services Tax and Provincial Sales Tax

During the third quarter of 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 has 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 million has been recorded in operating income in the third quarter to reflect management's best estimate of all such potential tax liabilities of which management is currently aware. The ultimate 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 estimate as progress towards resolution with the various tax authorities is made and will adjust the liability accordingly.

Notes to the Unaudited Interim Period Consolidated Financial Statements

15. Segment Information

The Company has two reportable operating segments: Weston Foods and Food Distribution. The accounting policies of the segments are the same as those described herein and in the Company's 2004 Annual Report. The Company measures each segment's performance based on operating income. No segment is reliant on any single external customer.

($ millions)	16 Weeks Ended **Oct. 8, 2005**	16 Weeks Ended Oct. 9, 2004 restated (note 6)	40 Weeks Ended **Oct. 8, 2005**	40 Weeks Ended Oct. 9, 2004 restated (note 6)
Sales				
Weston Foods	**$ 1,345**	$ 1,361	**$ 3,396**	$ 3,419
Food Distribution	**8,653**	8,134	**21,213**	19,880
Intersegment	**(261)**	(235)	**(627)**	(573)
Consolidated	**$ 9,737**	$ 9,260	**$ 23,982**	$ 22,726
Operating Income				
Weston Foods (1)	**$ 101**	$ 51	**$ 193**	$ 142
Food Distribution (2)	**377**	454	**1,001**	1,116
Consolidated	**$ 478**	$ 505	**$ 1,194**	$ 1,258

(1) Operating income for the third quarter of 2005 and year-to-date 2005 includes restructuring and other income of $9 (2004 – charge of $44) and restructuring and other charges of $31 (2004 – $44), respectively (see note 2).

(2) Operating income for the third quarter of 2005 and year-to-date 2005 includes restructuring and other charges of $17 (2004 – $3) and $82 (2004 – $11), respectively (see note 2).

Corporate Profile

George Weston Limited ("Weston") is a Canadian public company founded in 1882 and through its operating subsidiaries constitutes one of North America's largest food processing and distribution groups. Weston has two reportable operating segments: Weston Foods and Food Distribution, which is operated by Loblaw Companies Limited ("Loblaw"). The Weston Foods operating segment is primarily engaged in the baking and dairy industries within North America. Loblaw, the largest food distributor in Canada, concentrates on food retailing while increasing its offering of general merchandise products and services.

Trademarks

George Weston Limited and its subsidiaries own a number of trademarks. These trademarks are exclusive property of Weston and its subsidiary companies. Trademarks where used in this report are in italics.

Investor Relations

Shareholders, security analysts and investment professionals should direct their requests to Mr. Geoffrey H. Wilson, Senior Vice President, Investor Relations and Public Affairs at the Company's Executive Office or by e-mail at investor@weston.ca.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR). The Company holds an analyst call shortly following the release of its quarterly results, which is broadcast live on the Company's website. These calls are archived in the Investor Zone section of the Company's website.

This Quarterly Report includes selected information on Loblaw Companies Limited, a 62%-owned public reporting company with shares trading on the Toronto Stock Exchange.

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