Q2

George Weston Limited

Quarterly Report to Shareholders

24 Weeks Ended June 17, 2006

FORWARD-LOOKING STATEMENTS

This Quarterly Report for George Weston Limited ("Weston") and its subsidiaries (collectively, the "Company"), including the Management's 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 guarantees, but only predictions. Although the Company believes that these statements are based on information and assumptions, which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from the estimates, projections and intentions. Such differences may be caused by factors which include, but are not limited to, changes in consumer spending, preferences and consumers' nutritional and health related concerns, changes in the competitive environment, including changes in pricing and market strategies of the Company or its competitors and the entry of new competitors and expansion of current competitors, the availability and cost of raw materials and ingredients, fuels and utilities, the ability to realize anticipated cost savings, including those resulting from restructuring and other cost reduction initiatives, the ability to execute restructuring plans effectively, 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, public health events, 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. The Company cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Operating and Financial Risks and Risk Management sections of the MD&A included in Weston's 2005 Financial Report.

The assumptions applied in making the forward-looking statements contained in this Quarterly Report, including the MD&A, include the following: economic conditions do not materially change from those expected, patterns of consumer spending and preferences are reasonably consistent with historical trends, no new significant competitors enter the Company's markets nor does the Company or its existing competitors unexpectedly significantly increase their presence or change pricing or market strategies materially, anticipated cost savings from restructuring activities are realized as planned, continuing future restructuring activities are effectively executed, the Company does not significantly change its approach to its current restructuring activities, there are no material work stoppages and the performance of third-party service providers is in accordance with expectations.

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 filing 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.

George Weston Limited's second quarter 2006 basic net earnings per common share from continuing operations were $1.32, a decrease of 0.8% compared to $1.33 in 2005. Basic net earnings per common share from continuing operations included a net positive impact of $0.11 per common share as a result of the following factors:

- a $0.06 per common share charge related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw Companies Limited ("Loblaw");
- a $0.09 per common share charge for the net effect of stock-based compensation and the associated equity derivatives;
- $0.12 per common share non-cash income related to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares; and
- $0.14 per common share income related to the revaluation of future income tax balances resulting from a reduction in statutory income tax rates in Canada.

After adjusting for the above noted items, Weston's second quarter 2006 adjusted basic net earnings per common share from continuing operations(1) were $1.21. This result compares to second quarter 2005 adjusted basic net earnings per common share from continuing operations(1) of $1.35, which was adjusted for the above factors in 2005. Adjusted basic net earnings per common share from continuing operations(1) for the second quarter of 2006 decreased 10.4% compared to 2005.

CONSOLIDATED RESULTS OF OPERATIONS

Sales for the second quarter of 2006 of $7.5 billion increased 3.7% compared to 2005 including a 1.0% decrease due to foreign currency translation.

Operating income of $381 million for the second quarter of 2006 compared to $424 million in 2005, a decrease of 10.1%. Adjusting for the effects of the items described above, adjusted operating income(1) for the second quarter of 2006 was $406 million compared to $448 million in the second quarter of 2005, which resulted in an adjusted operating margin(1) of 5.5% compared to 6.3% in the prior year.

Interest expense and other financing charges for the second quarter of 2006 decreased 8.5% to $54 million from $59 million in 2005. The decrease is primarily due to the higher non-cash income of $23 million (2005 – $20 million) related to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares and higher net short term interest income. The effective income tax rate decreased to 20.5% in the second quarter of 2006 compared to 29.3% in 2005 primarily due to a reduction of $24 million to future income tax expense related to the revaluation of future income tax balances resulting from a reduction in statutory income tax rates in Canada.

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 for the second quarter of 2006 of $1.0 billion decreased 2.4% compared to 2005 as a result of a sales increase of 4.6% offset by the negative impact of foreign currency translation, which impacted Weston Foods reported sales growth by approximately 7.0%. Sales growth was positively impacted by the fresh bakery and dairy categories, including improvements in price, volume and sales mix, as well as the positive impact from frozen bakery sales, which were positively impacted by the timing of Easter, which occurred in the second quarter this year.

Weston Foods adjusted operating income(1) for the second quarter of 2006 was $72 million compared to $66 million in 2005, an increase of 9.1%, impacted positively by sales growth, pricing and the continued focus on cost reduction initiatives. Adjusted operating margin(1) for the second quarter of 2006 was 7.2% compared to 6.4% in 2005.

Loblaw

Progress continues to be made in stabilizing Loblaw's supply chain function. During the quarter, Loblaw's third-party owned and operated warehouse and distribution centre for eastern Canada posted productivity

(1) See Non-GAAP Financial Measures on page 16.

improvements and achieved expected service and operating cost targets. As part of the move to a national systems platform, three additional systems conversions were completed during the quarter with minimal disruption to continuing operations. Food service levels continued at expected levels during the second quarter. Service to the general merchandise and drugstore businesses improved with increased stability.

Loblaw sales for the second quarter of 2006 of $6.7 billion increased 4.6% compared to 2005. Absolute sales increased across all regions of the country compared to the same period in 2005. Sales for the second quarter of 2006 included a positive impact of approximately 1% attributable to the shift in Easter sales into the second quarter of 2006. Same-store sales increased by 1.6%. Sales increased in the food, general merchandise and drugstore areas. Investments in the form of lower food prices are being made in specific markets in support of Loblaw's business strategy to grow sales levels. Loblaw sales declined 0.7% due to tobacco sales declines in the second quarter of 2006 in line with market conditions. In addition, an announcement was made in the second quarter by a major tobacco supplier that it will start shipping directly to certain customers of Loblaw in late August 2006. This is expected to reduce wholesale sales in the cash & carry and wholesale club businesses by approximately $140 million for 2006. Tobacco sales are a significant portion of these businesses, although not a large earnings contributor. The impact to the cash & carry and wholesale club network is currently being assessed, in light of this announcement.

Loblaw adjusted operating income[(1)] of $334 million in the second quarter of 2006 compared to $382 million in 2005 resulting in adjusted operating margins[(1)] of 5.1% and 6.1% respectively. As Loblaw continues to implement transformative initiatives that are key to its future growth, earnings continued to be adversely affected. The continued investments in lower food prices to drive Loblaw's sales growth had a short term negative impact on earnings. Aggregate gross margin percentage softened as a result but was mostly offset by improvements in buying synergies, improved mix of food, general merchandise and drugstore and better inventory shrink. Higher store and distribution centre operational costs, principally labour, were incurred in order to stabilize the flow of product to the stores. Much of this is variable in nature and is expected to diminish as progress through the transformation is made. Short term costs of additional third party locations for storage of inventory were absorbed as a measure undertaken to quicken the supply chain stabilization process.

OUTLOOK

The outlook for the consolidated results of George Weston Limited for 2006 reflects the underlying results of its operating segments as discussed below. 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.

The outlook for Weston Foods for the balance of the year is for continued growth in sales in an ongoing competitive pricing environment. Growth in adjusted operating income[(1)] and margins[(1)] is anticipated to continue to be pressured by underlying cost inflation, particularly with respect to certain key ingredients, packaging and energy costs.

Loblaw is continuing with the transformational changes that are necessary to position Loblaw to compete and to succeed for the long term. Any transformative process presents its share of challenges as well as opportunities. In Loblaw's case, those challenges have been more complex and are costing more than anticipated. At the same time, the competitive landscape continues to evolve. Retail square footage continues to increase at a rate that exceeds the rate of growth in underlying demand. As Loblaw and its competitors strive to maintain and grow market share, the result has been increased pressure on Loblaw's margins and earnings. Loblaw remains confident that its previously announced anticipated sales growth for 2006, excluding the impact of variable interest entities, will be in the range of 3% to 6%. Although Loblaw's adjusted basic net earnings per common share[(1)] growth is expected to increase during the balance of the year, the rate of growth is expected to be slower than originally projected given year-to-date results and therefore will be below previous guidance of 4% to 7%. For the full year, Loblaw expects adjusted basic net earnings per common share[(1)] to be in the range of 0% to 5% below 2005 results.

W. Galen Weston

W. Galen Weston
Chairman and President

Toronto, Canada
July 27, 2006

(1) See Non-GAAP Financial Measures on page 16.

The following MD&A for George Weston Limited should be read in conjunction with Weston's 2006 unaudited interim period consolidated financial statements and the accompanying notes on pages 18 to 27 of this Quarterly Report and the audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2005 and the related annual MD&A included in Weston's 2005 Financial Report. Weston's 2006 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. These interim period consolidated financial statements include the accounts of George Weston Limited and its subsidiaries and variable interest entities ("VIEs") that the Company is required to consolidate in accordance with Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG 15"). A glossary of terms and ratios used throughout this Quarterly Report can be found on page 91 of Weston's 2005 Financial Report. In addition, this Quarterly Report includes the following terms: "rolling year return on average total assets", which is defined as cumulative 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 cumulative 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 July 27, 2006, unless otherwise noted.

CONSOLIDATED RESULTS OF OPERATIONS

SALES AND SALES GROWTH EXCLUDING THE IMPACT OF VIES(1)

	12 Weeks Ended		24 Weeks Ended	
($ millions except where otherwise indicated)	**Jun. 17, 2006**	Jun. 18, 2005(2)	**Jun. 17, 2006**	Jun. 18, 2005(2)
Total sales	**$ 7,507**	$ 7,242	**$ 14,504**	$ 14,150
Less: Sales attributable to the consolidation of VIEs	**89**	99	**170**	170
Sales excluding the impact of VIEs(1)	**$ 7,418**	$ 7,143	**$ 14,334**	$ 13,980
Total sales growth	**3.7%**	5.2%	**2.5%**	5.8%
Less: Impact on sales growth of sales attributable to the consolidation of VIEs	**(0.1)%**	1.4%		1.3%
Sales growth excluding the impact of VIEs(1)	**3.8%**	3.8%	**2.5%**	4.5%

ADJUSTED OPERATING INCOME(1)

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Operating income	**$ 381**	$ 424	**$ 702**	$ 716
Add (deduct) impact of the following:				
Restructuring and other charges	**15**	17	**25**	103
Net effect of stock-based compensation and the associated equity derivatives	**15**	7	**19**	15
VIEs	**(5)**			(1)
Adjusted operating income(1)	**$ 406**	$ 448	**$ 746**	$ 833

ADJUSTED EBITDA(1)

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Adjusted operating income(1)	**$ 406**	$ 448	**$ 746**	$ 833
Add (deduct) impact of the following:				
Depreciation and amortization	**166**	155	**327**	305
VIEs depreciation and amortization	**(6)**	(5)	**(12)**	(9)
Adjusted EBITDA(1)	**$ 566**	$ 598	**$ 1,061**	$ 1,129

(1) See Non-GAAP Financial Measures on page 16.

(2) The Company implemented Emerging Issues Committee Abstract 156, "Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" in the first quarter of 2006 on a retroactive basis. Accordingly certain sales incentives paid by Loblaw to independent franchisees, associates and independent accounts for 2005 and 2004 have been reclassified between sales and cost of sales, selling and administrative expenses. For a further discussion, see the "New Accounting Standards" section included in this MD&A.

ADJUSTED BASIC NET EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS[1]

	12 Weeks Ended		24 Weeks Ended	
($)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Basic net earnings per common share from continuing operations	**$ 1.32**	$ 1.33	**$ 2.23**	$ 2.06
Add (deduct) impact of the following:				
Restructuring and other charges	**0.06**	0.07	**0.10**	0.39
Net effect of stock-based compensation and the associated equity derivatives	**0.09**	0.05	**0.12**	0.09
Accounting for the forward sale agreement of Loblaw common shares	**(0.12)**	(0.10)	**(0.11)**	(0.07)
Changes in statutory income tax rates	**(0.14)**		**(0.14)**	
VIEs			**0.01**	
Adjusted basic net earnings per common share from continuing operations[1]	**$ 1.21**	$ 1.35	**$ 2.21**	$ 2.47

Sales Sales for the second quarter of 2006 increased 3.7%, or $265 million, to $7.5 billion from $7.2 billion in 2005, including a decrease of 0.1% in sales relating to the consolidation of certain Loblaw independent franchisees as required by AcG 15. In 2006, sales excluding the impact of VIEs[1] increased by $275 million or 3.8% over the second quarter in 2005. On a year-to-date basis, sales of $14.5 billion increased 2.5%. 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% and 0.8% for the second quarter of 2006 and year-to-date, respectively. The Company's consolidated sales for the second quarter of 2006 were impacted by each of its reportable operating segments as follows:

- Negatively by 0.3% due to a sales decrease of 2.4% at Weston Foods, which included the negative impact of foreign currency translation of approximately 7.0%. Sales were positively impacted by approximately 0.5% due to the timing of Easter, which occurred in the second quarter this year.

- Positively by 4.1% due to sales growth of 4.6% at Loblaw, which included significant sales growth from *The Real Canadian Superstore* program in Ontario as well as gains in food, general merchandise and drugstore. Sales and same-store sales growth were positively impacted by approximately 1% due to the timing of Easter in 2006.

Operating Income Operating income for the second quarter of 2006 was $381 million compared to $424 million in 2005, a decrease of 10.1%. Operating income included restructuring and other charges in the second quarter of 2006 of $15 million (2005 – $17 million) and a charge for stock-based compensation net of the impact of the associated equity derivatives of $15 million (2005 – $7 million). In addition, second quarter operating income in 2006 includes income of $5 million (2005 – nil) resulting from the consolidation of VIEs. After adjusting for the impact of the items described above, consolidated adjusted operating income[1] was $406 million compared to $448 million in 2005, a decline of 9.4%. The Company's adjusted operating income[1] was impacted by each of its reportable operating segments as follows:

- Positively by 1.3% due to an increase of 9.1% in adjusted operating income[1] at Weston Foods, including the positive impact of sales growth and the benefits of a continued focus on cost reduction initiatives. In addition, operating income was negatively impacted by foreign currency translation as a result of the appreciation of the Canadian dollar relative to the United States dollar.

- Negatively by 10.7% due to a decline of 12.6% in adjusted operating income[1] at Loblaw. Aggregate gross margin percentage softened as a result of continued investment in lower food prices but was mostly offset by improvements in buying synergies, improved mix of food, general merchandise and drugstore and better inventory shrink. In addition, higher store and distribution centre operational costs, principally labour, were incurred in order to stabilize the flow of product to the stores.

(1) See Non-GAAP Financial Measures on page 16.

Year-to-date operating income for 2006 decreased 2.0% or $14 million, to $702 million compared to $716 million in 2005, including restructuring and other charges of $25 million (2005 – $103 million) and stock-based compensation charge of $19 million (2005 – $15 million). In addition, operating income for 2006 includes no impact (2005 – income of $1 million) resulting from the consolidation of VIEs. After adjusting for the negative impact of the items described above, year-to-date consolidated adjusted operating income(1) was $746 million in 2006 compared to $833 million in 2005, a decline of 10.4%.

The Company's second quarter 2006 consolidated adjusted operating margin(1) decreased to 5.5% from 6.3% in 2005 and the consolidated adjusted EBITDA margin(1) decreased to 7.6% from 8.4% in 2005, both negatively impacted by lower adjusted operating margins(1) at Loblaw, partially offset by higher adjusted operating margins(1) at Weston Foods. For the same reasons, year-to-date consolidated adjusted operating margin(1) decreased to 5.2% from 6.0% in 2005 and the consolidated adjusted EBITDA margin(1) decreased to 7.4% from 8.1% in 2005.

Interest Expense and Other Financing Charges Interest expense and other financing charges for the second quarter of 2006 decreased by $5 million, or 8.5%, to $54 million from $59 million in 2005.

The change is explained as follows:

- Interest on long term debt of $91 million decreased $5 million primarily due to lower weighted average debt levels.

- 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 $3 million (2005 – income of $2 million). The change in interest on financial derivative instruments was mainly due to the maturity of interest rate swaps in 2005 and an increase in United States short term interest rates.

- In the second quarter of 2006, non-cash income of $23 million (2005 – $20 million) was recorded in other financing charges representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares. The 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.

- Net short term interest income of $7 million compared to $5 million in 2005 primarily due to higher interest rates on United States dollar denominated cash, cash equivalents and short term investments and lower average short term debt due to the issuance of preferred shares by Weston, partially offset by an increase in Canadian short term interest rates.

- During the second quarter of 2006, $5 million (2005 – $5 million) of interest expense was capitalized to fixed assets.

Year-to-date interest expense and other financing charges decreased by $13 million to $133 million from $146 million in 2005. The positive impact of lower weighted average debt levels and higher non-cash income related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares was partially offset by the impact of interest expense on financial derivatives in 2006 compared to interest income in 2005.

Income Taxes The Company's effective income tax rate in the second quarter of 2006 decreased to 20.5% compared to 29.3% in the second quarter of 2005 and on a year-to-date basis decreased to 23.2% from 27.4% in 2005, primarily due to the effect of changes in Canadian federal and certain provincial statutory income tax rates. The cumulative effects of these changes on future income tax assets and liabilities are included in the consolidated financial statements at the time of substantive enactment. Accordingly, in the second quarter of 2006, a $24 million reduction to future income tax expense was recognized. In addition, the effective income tax rate was impacted by a change in the proportion of taxable income earned across

(1) See Non-GAAP Financial Measures on page 16.

different tax jurisdictions, including the jurisdictions in which the income tax impacts of restructuring and other charges and stock-based compensation and the associated equity derivatives occurred.

Net Earnings from Continuing Operations Net earnings from continuing operations for the second quarter of 2006 of $184 million increased by $5 million, or 2.8%, from $179 million in 2005 and on a year-to-date basis increased $32 million, or 11.4% to $312 million from $280 million in 2005. Basic net earnings per common share from continuing operations for the second quarter of 2006 decreased $0.01, or 0.8%, to $1.32 from $1.33 in 2005 and year-to-date increased $0.17, or 8.3%, to $2.23 from $2.06 in 2005.

Basic net earnings per common share from continuing operations for the second quarter of 2006 of $1.32 included a net positive impact of $0.11 per common share as a result of the following factors:

- a $0.06 per common share charge related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a $0.09 per common share charge for the net effect of stock-based compensation and the associated equity derivatives;
- $0.12 per common share non-cash income related to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares; and
- $0.14 per common share income related to the revaluation of future income tax balances resulting from a reduction in statutory income tax rates in Canada.

Basic net earnings per common share from continuing operations for the second quarter of 2005 of $1.33 included a net negative impact of $0.02 per common share as a result of the following factors:

- a $0.07 per common share charge related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a $0.05 per common share charge for the net effect of stock-based compensation and the associated equity derivatives; and
- $0.10 per common share non-cash income related to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares.

After adjusting for the above noted items, Weston's second quarter 2006 adjusted basic net earnings per common share from continuing operations(1) was $1.21 compared to $1.35 in 2005, a decrease of 10.4%.

The 2006 year-to-date basic net earnings per common share from continuing operations of $2.23 included a net positive impact of $0.02 per common share as a result of the following factors:

- a $0.10 per common share charge related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a $0.12 per common share charge for the net effect of stock-based compensation and the associated equity derivatives;
- $0.11 per common share non-cash income related to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares;
- $0.14 per common share income related to the revaluation of future income tax balances resulting from a reduction in statutory income tax rates in Canada; and

(1) See Non GAAP Financial Measures on page 16.

- a $0.01 per common share charge related to the consolidation of VIEs pursuant to accounting standards implemented in the first quarter of 2005.

The 2005 year-to-date basic net earnings per common share from continuing operations of $2.06 included a net negative impact of $0.41 per common share as a result of the following factors:

- a $0.39 per common share charge related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;

- a $0.09 per common share charge for the net effect of stock-based compensation and the associated equity derivatives; and

- $0.07 per common share non-cash income related to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares.

Net Earnings Net earnings for the second quarter of 2006 increased by $31 million, or 20.3%, to $184 million from $153 million in 2005 primarily due to the loss from discontinued operations in 2005, and on a year-to-date basis increased by $59 million, or 23.3%, to $312 million from $253 million in 2005, primarily due to higher net earnings from continuing operations in 2006 and the loss from discontinued operations in 2005. Basic net earnings per common share for the second quarter of 2006 increased $0.19, or 16.8%, to $1.32 from $1.13 in 2005 and year-to-date increased $0.38, or 20.5%, to $2.23 from $1.85 in 2005, both due to the increase in net earnings.

REPORTABLE OPERATING SEGMENTS
Weston Foods

ADJUSTED OPERATING INCOME(1)

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Operating income	**$ 56**	$ 57	**$ 120**	$ 92
Add impact of the following:				
Restructuring and other charges	**10**	9	**17**	40
Net effect of stock-based compensation and the associated equity derivatives	**6**		**7**	3
Adjusted operating income(1)	**$ 72**	$ 66	**$ 144**	$ 135

ADJUSTED EBITDA(1)

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Adjusted operating income(1)	**$ 72**	$ 66	**$ 144**	$ 135
Depreciation and amortization	**27**	29	**54**	59
Adjusted EBITDA(1)	**$ 99**	$ 95	**$ 198**	$ 194

Sales Weston Foods sales for the second quarter of 2006 of $1.0 billion decreased 2.4% compared to 2005, as a result of a sales increase of 4.6% offset by the negative impact of foreign currency translation, which impacted Weston Foods reported sales growth by approximately 7.0%. Overall volume increased 0.5% for the second quarter of 2006, which was positively impacted by approximately 0.5% due to the timing of Easter. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by approximately 4.1% for the second quarter of 2006.

On a year-to-date basis, sales of $2.0 billion decreased 1.2% compared to 2005, as a result of a sales increase of 4.3% offset by the negative impact of foreign currency translation which impacted Weston Foods reported year-to-date sales growth by approximately 5.5%. Overall volume increased 0.3% and price increases and changes in sales mix contributed positively to sales growth by approximately 4.0%.

(1) See Non-GAAP Financial Measures on page 16.

Fresh bakery sales contributed positively to overall sales growth in the second quarter and year-to-date, driven by both volume and price increases. Branded volume increases included growth in the *Thomas'*, *Arnold* and *Dutch Country* brands in the United States and the *Wonder* and *Weston* brands in Canada. Continued growth in whole grain products and the introduction of new and expanded products, such as *Thomas' Squares* Bagelbread and *Wonder Plus* bread contributed positively to branded sales growth during the second quarter and year-to-date 2006, partially offset by the impact of product rationalizations. Although consumption of white flour based products remained challenged during 2006, price increases and new private label customers helped offset this negative consumption trend.

Fresh-baked sweet goods sales contributed positively to overall sales growth in the second quarter and year-to-date supported by price increases and reduced promotional activity, which more than offset overall volume declines. This category, primarily sold under the *Entenmann's* brand, continued to experience a challenging sales environment in the quarter.

Frozen bakery sales contributed positively to overall sales growth in the second quarter of 2006 due to higher volumes and improvements in sales mix. Sales volume growth for the second quarter was positively impacted by the timing of Easter in 2006 compared to 2005. On a year-to-date basis, frozen bakery sales contributed positively to overall sales growth due to price increases combined with improvements in sales mix partially offset by lower volumes.

Dairy sales contributed positively to overall sales growth in the second quarter and year-to-date as a result of volume growth, price increases and improvements in sales mix as growth continues to be experienced in value-added products. Biscuit category sales contributed negatively to overall sales growth in the second quarter and year-to-date primarily due to lower volumes across most categories.

Operating Income Weston Foods operating income decreased 1.8% to $56 million in the second quarter of 2006 from $57 million in 2005 and was impacted by higher restructuring and other charges and net stock-based compensation costs. Restructuring and other charges in the second quarter of 2006 were $10 million compared to $9 million in 2005 and net stock-based compensation was a charge of $6 million in 2006 compared to no impact in 2005. Adjusting for the impact of restructuring and other charges and net stock-based compensation costs, adjusted operating income[(1)] was $72 million for the second quarter of 2006, an increase of 9.1% from $66 million in 2005. Adjusted operating margin[(1)] and adjusted EBITDA margin[(1)] for the second quarter of 2006 were 7.2% and 9.9%, respectively (2005 – 6.4% and 9.3%). In addition, foreign currency translation negatively impacted second quarter 2006 adjusted operating income[(1)] growth by approximately 6 percentage points.

On a year-to-date basis, Weston Foods operating income increased 30.4% to $120 million from $92 million in 2005 and was impacted by lower restructuring and other charges and higher net stock-based compensation costs. Restructuring and other charges in 2006 were $17 million compared to $40 million in 2005 and net stock-based compensation was a charge of $7 million in 2006 compared to $3 million in 2005. Adjusting for the impact of restructuring and other charges and net stock-based compensation costs, adjusted operating income[(1)] was $144 million for 2006, an increase of 6.7% from $135 million in 2005. Adjusted operating margin[(1)] and adjusted EBITDA margin[(1)] for 2006 were 7.1% and 9.8%, respectively (2005 – 6.6% and 9.5%). In addition, foreign currency translation negatively impacted 2006 year-to-date adjusted operating income[(1)] growth by approximately 5 percentage points.

Adjusted operating income[(1)] and margin[(1)] for the second quarter of 2006 and on a year-to-date basis were positively impacted by sales growth, primarily due to price and sales mix improvements and by the benefits of a continued focus on cost reduction initiatives. This was partially offset by the negative impact of inflationary cost pressures related to certain ingredients and packaging costs as well as higher energy costs, which continue to challenge Weston Foods operating income and margin growth. In addition to increases in energy costs, distribution costs were higher compared to 2005, in particular in the United States, as Weston Foods continues to focus its manufacturing capacity for more efficient production runs and where appropriate, outsourcing shorter-run products to contract manufacturers. The increased use of

(1) See Non-GAAP Financial Measures on page 16.

contract manufacturers and focused manufacturing facilities generally increases distribution complexity and costs. During the second quarter of 2006 and on a year-to-date basis, Weston Foods incurred approximately $1 million and $2 million respectively of training and other facility startup related costs associated with the new biscuit facility in Virginia. Weston Foods expects to incur further startup related costs during 2006 as the plan to restructure its United States biscuit operations is completed.

Weston Foods continues to evaluate strategic and other cost reduction initiatives with the objectives of ensuring a low cost operating structure and an improving competitive cost position. Certain of these initiatives are in progress while others are still in the planning stages. During the second quarter of 2006, Weston Foods approved a plan to close a frozen bagel plant in Nebraska. The closure was completed early in the third quarter of 2006. As a result of this restructuring, Weston Foods expects to recognize total accelerated depreciation of $5 million and employee termination benefits and other exit related costs of $2 million over the second and third quarters of 2006. During the second quarter of 2006 and year-to-date, Weston Foods recognized $5 million of restructuring and other charges related to this plan, consisting of $4 million of accelerated depreciation and $1 million of employee termination benefits and other exit related costs.

Also during the second quarter of 2006, Weston Foods recognized $5 million of restructuring and other charges related to the previously approved plan to restructure its United States biscuit operations, consisting of $3 million of accelerated depreciation and $2 million of employee termination benefits and other exit related costs. On a year-to-date basis, Weston Foods recognized $12 million of restructuring and other charges related to this plan, consisting of $7 million of accelerated depreciation and $5 million of employee termination benefits and other exit related costs.

Weston Foods continues to evaluate strategic and other cost reduction initiatives related to the fresh-baked sweet goods category in the United States, administrative cost control, as well as manufacturing asset restructuring and distribution network optimization. Individual actions will be initiated and additional charges may be taken as plans are finalized and approved.

Loblaw

SALES AND SALES GROWTH EXCLUDING THE IMPACT OF VIEs(1)

	12 Weeks Ended		24 Weeks Ended	
($ millions except where otherwise indicated)	**Jun. 17, 2006**	Jun. 18, 2005(2)	**Jun. 17, 2006**	Jun. 18, 2005(2)
Total sales	**$ 6,699**	$ 6,405	**$ 12,846**	$ 12,465
Less: Sales attributable to the consolidation of VIEs	**89**	99	**170**	170
Sales excluding the impact of VIEs(1)	**$ 6,610**	$ 6,306	**$ 12,676**	$ 12,295
Total sales growth	**4.6%**	6.1%	**3.1%**	6.9%
Less: Impact on sales growth of sales attributable to the consolidation of VIEs	**(0.2)%**	1.6%		1.4%
Sales growth excluding the impact of VIEs(1)	**4.8%**	4.5%	**3.1%**	5.5%

ADJUSTED OPERATING INCOME(1)

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Operating income	**$ 325**	$ 367	**$ 582**	$ 624
Add (deduct) impact of the following:				
Restructuring and other charges	**5**	8	**8**	63
Net effect of stock-based compensation and the associated equity derivatives	**9**	7	**12**	12
VIEs	**(5)**			(1)
Adjusted operating income(1)	**$ 334**	$ 382	**$ 602**	$ 698

(1) See Non-GAAP Financial Measures on page 16.

(2) The Company implemented Emerging Issues Committee Abstract 156, "Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" in the first quarter of 2006 on a retroactive basis. Accordingly certain sales incentives paid by Loblaw to independent franchisees, associates and independent accounts for 2005 and 2004 have been reclassified between sales and cost of sales, selling and administrative expenses. For a further discussion, see the "New Accounting Standards" section included in this MD&A.

ADJUSTED EBITDA[1]

($ millions)	12 Weeks Ended Jun. 17, 2006	Jun. 18, 2005	24 Weeks Ended Jun. 17, 2006	Jun. 18, 2005
Adjusted operating income[1]	**$ 334**	$ 382	**$ 602**	$ 698
Add (deduct) impact of the following:				
Depreciation and amortization	**139**	126	**273**	246
VIEs depreciation and amortization	**(6)**	(5)	**(12)**	(9)
Adjusted EBITDA[1]	**$ 467**	$ 503	**$ 863**	$ 935

While earnings were lower than expected, Loblaw was encouraged by the positive sales trends and number of positive developments in the quarter.

Progress continues to be made in stabilizing the supply chain function of the business. During the quarter, the third-party owned and operated warehouse and distribution centre for eastern Canada posted productivity improvements and achieved expected service operating cost targets. As part of the move to a national systems platform, three additional systems conversions were completed during the quarter with minimal disruption to continuing operations. Food service levels continued at expected levels during the second quarter. Service to the general merchandise and drugstore businesses improved with increased stability.

Sales Loblaw sales for the second quarter of 2006 increased by 4.6% to $6.7 billion, including a decrease of 0.2% or $10 million in sales relating to the consolidation of certain independent franchisees as required by AcG 15. In 2006, sales excluding the impact of VIEs[1] increased by $304 million or 4.8% over the comparable period last year.

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

- Easter occurred three weeks later in 2006 resulting in a shift in holiday sales into the second quarter of 2006 and in an increase of approximately 1% in sales and same-store sales growth for the second quarter of 2006;
- same-store sales increase of 1.6%;
- significant sales growth from *The Real Canadian Superstore* program in Ontario;
- national food price inflation as measured by "The Consumer Price Index for Food Purchased from Stores" was approximately 1.0% to 1.5% for the second quarter of 2006 compared to approximately 2.0% in the comparable period of 2005;
- food, general merchandise and drugstore sales posted gains over the comparable period in 2005; and
- an increase in net retail square footage of 2.1 million square feet or 4.4% during the latest four quarters, due to the opening of 51 new corporate and franchised stores and the closure of 39 stores, inclusive of stores which have undergone conversions and major expansions; during the second quarter of 2006, 7 new corporate and franchised stores were opened and 6 were closed resulting in a net increase of 0.2 million square feet or 0.4%.

Investments in the form of lower food prices are being made in specific markets in support of Loblaw's business strategy to grow sales levels.

Loblaw sales declined 0.7% due to tobacco sales declines in the second quarter in line with market conditions. In addition, an announcement was made in the second quarter by a major tobacco supplier that it will start shipping directly to certain customers of Loblaw in late August 2006. This is expected to reduce wholesale sales in the cash & carry and wholesale club businesses by approximately $140 million for 2006. Tobacco sales are a significant portion of these businesses, although not a large earnings contributor. The impact to the cash & carry and wholesale club network is currently being assessed, in light of this announcement.

(1) See Non-GAAP Financial Measures on page 16.

For the first half of the year, sales of $12.8 billion were 3.1% ahead of last year. While the timing of Easter does not impact sales growth on a year-to-date basis, the following factors in addition to the quarterly factors mentioned above excluding Easter, further explain the change in year-to-date sales over the same period in the prior year:

- school holiday timing during the first week of 2006 coupled with one less selling day in the first quarter adversely impacted sales and same-store sales growth by approximately 0.5% for the first half of 2006;
- year-to-date same-store sales decline of 0.4%; and
- an increase in retail square footage during the latest four quarters as noted above. In the first two quarters, 12 new corporate and franchised stores were opened and 12 stores were closed resulting in a net increase of 0.3 million square feet or 0.7% from year end 2005.

Operating Income Loblaw operating income for the second quarter of 2006 decreased 11.4% from last year to $325 million. The operating margin was 4.9% for the second quarter of 2006 compared to 5.7% in 2005.

The impact of the restructuring plan introduced in the first quarter of 2005 continued into 2006. This plan included the restructuring of the supply chain network and the office move and reorganization of the operation support functions. An incremental $5 million of costs associated with the restructuring of the supply chain network, which is anticipated to be fully implemented by the end of 2008, was recognized in the second quarter of 2006. Of the $90 million total expected costs to be incurred by the end of 2008, $69 million has been recognized during 2005 and 2006. The remaining costs will be recognized as appropriate criteria are met.

All of the expected $25 million of costs associated with the office move and reorganization of the operation support functions were recognized by the end of the first quarter of 2006.

Anticipated benefits from these initiatives are expected one year later than originally anticipated.

In addition, during the second quarter of 2006, Loblaw recognized a charge in operating income of $9 million (2005 – $7 million) for the net effect of stock-based compensation and the associated equity forwards and income of $5 million (2005 – nil) resulting from the consolidation of VIEs.

After adjusting for the above-noted items, adjusted operating income(1) was $334 million in the second quarter of 2006 compared to $382 million in the comparable period of 2005. Adjusted operating margin(1) was 5.1% in the second quarter of 2006 compared to 6.1% in 2005. Adjusted EBITDA margin(1) decreased to 7.1% from 8.0% in 2005.

The continued investments in lower food prices to drive Loblaw's sales growth, had a short term negative impact on earnings. Aggregate gross margin percentage softened as a result but was mostly offset by improvements in buying synergies, improved mix of food, general merchandise and drugstore and better inventory shrink. Higher store and distribution centre operational costs, principally labour, were incurred in order to stabilize the flow of product to the stores. Much of this is variable in nature and is expected to diminish as progress through the transformation is made. Short term costs of additional third party locations for storage of inventory were absorbed as a measure undertaken to quicken the supply chain stabilization process.

Operating income for the first half of 2006 decreased $42 million, or 6.7% to $582 million, and resulted in an operating margin of 4.5% as compared to 5.0% in the corresponding period in 2005. During the first half of 2006, Loblaw recorded restructuring and other charges of $8 million (2005 – $63 million) of which $7 million (2005 – $54 million) was related to the supply chain network and $1 million (2005 – $9 million) related to the office move and reorganization of the operation support functions. In addition, Loblaw recognized a year-to-date charge in operating income of $12 million (2005 – $12 million) for the net effect of stock-based compensation and the associated equity forwards and no impact (2005 – $1 million income) from the consolidation of VIEs.

(1) See Non-GAAP Financial Measures on page 16.

Adjusted operating income[1] for the first half of 2006 was $602 million compared to $698 million in the comparable period of 2005. Year-to-date adjusted operating margin[1] was 4.7% compared to 5.7% in 2005. Adjusted EBITDA margin[1] decreased to 6.8% from 7.6% in 2005. The 2006 year-to-date results include the first quarter effects of product supply issues, resulting from the implementation challenges arising from the 2005 conversions and delays in program activities which resulted in foregone sales and in lost leverage on the fixed components of operating and administrative expenses.

CONSOLIDATED FINANCIAL CONDITION

Financial Ratios The Company's net debt (excluding the Exchangeable Debentures)[1] to equity ratio at the end of the second quarter of 2006 was 1.02:1 compared to 1.22:1 in the same period of 2005 and 1.02:1 at year end 2005. The change in this ratio at the end of the second quarter of 2006 compared to the end of the second quarter in 2005 was mainly due to lower net debt, including the impact of a decrease in United States dollar denominated cash, cash equivalents and short term investments resulting from the appreciation of the Canadian dollar relative to the United States dollar and higher shareholders' equity as a result of the issuance of preferred shares in 2006 and 2005, partially offset by the translation of the Company's United States net investment due to the appreciation of the Canadian dollar relative to the United States dollar. The net debt (excluding the Exchangeable Debentures)[1] to equity ratio is expected to improve throughout the remainder of the year.

The interest coverage ratio for the second quarter of 2006 decreased to 7.1 times compared to 7.2 times in the second quarter of 2005 and on a year-to-date basis increased to 5.3 times in 2006 compared to 4.9 times in 2005.

The Company's rolling year return on average total assets[1] at the end of the second quarter of 2006 of 9.5% was lower than the return of 11.3% in the comparable period of 2005 and 10.0% for the year end 2005 return. The decrease in this ratio is primarily due to lower operating income. The Company's rolling year return on average common shareholders' equity was 16.6% at the end of the second quarter of 2006 compared to 15.0% in the comparable period in 2005 and 16.7% for the year end 2005 return.

Dividends On July 1, 2006, common share dividends of $0.36 per share, dividends of $0.32 per share for the Series II, Series III and Series IV preferred shares and a dividend of $0.24 per share for the Series V preferred shares were paid as declared by Weston's Board of Directors (the "Board"). On June 15, 2006, a dividend of $0.36 per share for the Series I preferred shares was paid as declared by the Board.

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 second quarter of 2006. An unlimited number of preferred shares Series I, Series II, Series III, Series IV and Series V are authorized and 9.4 million preferred shares Series I, 10.6 million preferred shares Series II, 8.0 million preferred shares Series III, 8.0 million preferred shares Series IV and 8.0 million preferred shares Series V were outstanding at the end of the second quarter of 2006.

During the second quarter of 2006, Weston issued 8.0 million preferred shares Series V for total net proceeds of $194 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 second quarter of 2006, Weston renewed its Normal Course Issuer Bid 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.

(1) See Non-GAAP Financial Measures on page 16.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities of Continuing Operations Second quarter 2006 cash flows from operating activities of continuing operations were $479 million compared to $411 million in 2005. The majority of the change in cash flows from operating activities of continuing operations is due to a source in non-cash working capital, primarily from an increase in accounts payable and accrued liabilities during the quarter. On a year-to-date basis, cash flows from operating activities of continuing operations were $64 million compared to $249 million in 2005. The change in cash flows from operating activities of continuing operations year-to-date is mainly due to the increase in the use of non-cash working capital.

On an annual basis, the cash flows from operating activities are expected to fund a large portion of the Company's 2006 funding requirements, including anticipated capital investment activity of approximately $1.1 billion. The investment in non-cash working capital is expected to decline and net earnings before minority interest, depreciation and amortization are expected to increase by the end of the year.

Cash Flows used in Investing Activities of Continuing Operations Second quarter 2006 cash flows used in investing activities of continuing operations were $561 million compared to $273 million in 2005. On a year-to-date basis, cash flows used in investing activities of continuing operations were $975 million compared to $149 million in 2005. The term to maturity profile of the Company's short term investment portfolio resulted in a shift in classification to short term investments from cash and cash equivalents and in the change in cash flows used in investing activities in the second quarter of 2006 relative to that of 2005.

Capital investment for the second quarter of 2006 totaled $215 million (2005 – $270 million) and $442 million (2005 – $526 million) year-to-date as the Company continues its commitment to maintain and renew its asset base and invest for growth within North America.

President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw, securitized $60 million (2005 – $90 million) of credit card receivables during the second quarter of 2006 and $115 million (2005 – $100 million) year-to-date through the sale of a portion of the total interest in these receivables to an independent trust, yielding a nominal net loss (2005 – nominal net loss) based on the assumptions disclosed in Note 11 to the consolidated financial statements for the year ended December 31, 2005 included in Weston's 2005 Financial Report. The independent trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported by Loblaw through a standby letter of credit for 9% (2005 – 15%) of the securitized amount.

During the first quarter of 2006, PC Bank restructured its credit card securitization program. Eagle Credit Card Trust ("Eagle"), a previously established independent trust, issued $500 million of five year senior and subordinated notes at a weighted average rate of 4.5% to finance the purchase of credit card receivables previously securitized by PC Bank through an independent trust. The subordinated notes provide credit support to those notes which are more senior. PC Bank will continue to service the credit card receivables on behalf of Eagle, but will not receive any fee for its servicing obligations and has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. The restructuring of the portfolio yielded a nominal net loss.

Cash Flows (used in) from Financing Activities of Continuing Operations Second quarter 2006 cash flows used in financing activities of continuing operations were $173 million compared to $15 million in 2005. On a year-to-date basis, cash flows from financing activities of continuing operations were $388 million compared to $455 million in 2005.

During the second quarter of 2006, Loblaw repaid its $125 million of 8.70% Series 1996 Provigo Inc. Debenture as it matured. In addition, Weston issued 8.0 million preferred shares Series V for total net proceeds of $194 million.

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 is reported in Canadian dollars. Each of the quarters presented were 12 weeks in duration except for the third quarter, which is 16 weeks in duration.

Quarterly Financial Information (unaudited)

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
($ millions except where otherwise indicated)	**2006**	2005	2006	2005	2005	2004	2005	2004
Sales[(2)]	**$ 7,507**	$ 7,242	$ 6,997	$ 6,908	$ 7,345	$ 7,026	$ 9,694	$ 9,215
Net earnings from continuing operations	**$ 184**	$ 179	$ 128	$ 101	$ 240	$ 154	$ 196	$ 185
Net earnings (loss)	**$ 184**	$ 153	$ 128	$ 100	$ 249	$ (1)	$ 196	$ 168
Net earnings per common share from continuing operations ($)								
Basic	**$ 1.32**	$ 1.33	$ 0.91	$ 0.73	$ 1.78	$ 1.15	$ 1.41	$ 1.37
Diluted	**$ 1.32**	$ 1.33	$ 0.91	$ 0.73	$ 1.78	$ 1.14	$ 1.41	$ 1.37
Net earnings (loss) per common share ($)								
Basic	**$ 1.32**	$ 1.13	$ 0.91	$ 0.72	$ 1.85	$ (0.05)	$ 1.41	$ 1.24
Diluted	**$ 1.32**	$ 1.13	$ 0.91	$ 0.72	$ 1.85	$ (0.06)	$ 1.41	$ 1.24

(2) The Company implemented Emerging Issues Committee Abstract 156, "Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" in the first quarter of 2006 on a retroactive basis. Accordingly certain sales incentives paid by Loblaw to independent franchisees, associates and independent accounts for 2005 and 2004 have been reclassified between sales and cost of sales, selling and administrative expenses. For a further discussion, see the "New Accounting Standards" section included in this MD&A.

Loblaw sales and same-store sales growth in the second quarter of 2006 were positively impacted by the timing of Easter which occurred three weeks later in 2006, resulting in a shift in holiday sales into the second quarter of 2006. The positive impact on sales growth in the second quarter of 2006 and corresponding negative impact on sales growth in the first quarter of 2006 from the shift in Easter sales was estimated to be approximately 1%. In addition, in the second quarter of 2006, investments in the form of lower food prices were made in specific markets. The impact of school holiday timing during the first week of 2006 combined with one less selling day adversely impacted sales growth by an estimated 1% for the first quarter of 2006. Sales from VIEs consolidated by Loblaw commencing in 2005, accounted for quarterly sales growth for the last two quarters of 2005 of between 1.6% and 1.8% when compared to the respective quarters in 2004. At Weston Foods, pricing and mix improvements resulted in increased sales offset by the negative impact of foreign currency translation. Weston Foods sales growth for the second quarter of 2006 was positively impacted by approximately 0.5% due to the timing of Easter. Weston Foods sales growth in the first quarter of 2006 was negatively impacted by approximately 1% due to the timing of Easter, the impact of holiday timing during the first quarter of 2006 and the impact of one less selling day in the quarter.

Net earnings from continuing operations for 2006 and 2005 were impacted by the following items:

- restructuring and other charges incurred by Weston Foods and Loblaw;
- net effect of stock-based compensation and the associated equity derivatives;
- costs associated with Loblaw's supply chain disruptions;
- Loblaw charges related to Goods and Services Tax and provincial sales taxes in 2005;

- accounting for Weston's 2001 forward sale agreement of 9.6 million Loblaw common shares; and
- the effect of a reduction in statutory income tax rates in Canada during 2006.

OPERATING RISKS AND RISK MANAGEMENT

Labour Subsequent to the second quarter of 2006, Loblaw's collective agreements concerning the employees of the *Loblaws* and *Zehrs* banners in Ontario, Canada expired. Labour negotiations are currently in progress. In addition, the collective agreement of the employees of *The Real Canadian Superstore* banner in Alberta, Canada will expire in the third quarter of 2006. Although not currently anticipated, the renegotiation of these collective agreements may result in work stoppages or slowdowns, which could negatively affect Loblaw's financial performance, depending on their nature and duration. Loblaw has good relations with its employees and unions and, although it is possible, it does not anticipate any unusual difficulties in renegotiating these agreements.

NEW ACCOUNTING STANDARDS

Effective January 1, 2006, the Company implemented Emerging Issues Committee Abstract 156, "Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" ("EIC 156"), issued by the Canadian Institute of Chartered Accountants in September 2005. EIC 156 addresses cash consideration, including sales incentives, given by a vendor to a customer. This consideration is presumed to be a reduction of the selling price of the vendor's products and should therefore be classified as a reduction of sales in the vendor's statement of earnings.

Prior to the implementation of EIC 156, Loblaw recorded certain sales incentives paid to independent franchisees, associates and independent accounts in costs of sales, selling and administrative expenses on the statement of earnings. Accordingly, the implementation of EIC 156 on a retroactive basis, resulted in a reclassification reducing both sales and cost of sales, selling and administrative expenses as follows:

	First Quarter (12 weeks)		Second Quarter (12 weeks)		Third Quarter (16 weeks)		Fourth Quarter (12 weeks)		Total (52 weeks)	
($ millions)	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Sales as previously reported	$ 6,972	$ 6,551	$ 7,273	$ 6,915	$ 9,737	$ 9,260	$ 7,381	$ 7,072	$ 31,363	$ 29,798
Sales after reclassification	$ 6,908	$ 6,496	$ 7,242	$ 6,882	$ 9,694	$ 9,215	$ 7,345	$ 7,026	$ 31,189	$ 29,619
Reclassification between sales and cost of sales, selling and administrative expenses	$ 64	$ 55	$ 31	$ 33	$ 43	$ 45	$ 36	$ 46	$ 174	$ 179

As reclassifications, these changes did not impact net earnings from continuing operations. Operating margins, adjusted operating margins(1) and adjusted EBITDA margins(1) for 2005 have also been recalculated and updated if applicable as a result of the change in sales.

OUTLOOK

The outlook for the consolidated results of George Weston Limited for 2006 reflects the underlying results of its operating segments as discussed below. 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.

The outlook for Weston Foods for the balance of the year is for continued growth in sales in an ongoing competitive pricing environment. Growth in adjusted operating income(1) and margins(1) is anticipated to continue to be pressured by underlying cost inflation, particularly with respect to certain key ingredients, packaging and energy costs.

Loblaw is continuing with the transformational changes that are necessary to position Loblaw to compete and to succeed for the long term. Any transformative process presents its share of challenges as well as opportunities. In Loblaw's case, those challenges have been more complex and are costing more than anticipated. At the same time, the competitive landscape continues to evolve. Retail square footage

(1) See Non-GAAP Financial Measures on page 16.

continues to increase at a rate that exceeds the rate of growth in underlying demand. As Loblaw and its competitors strive to maintain and grow market share, the result has been increased pressure on Loblaw's margins and earnings. Loblaw remains confident that its previously announced anticipated sales growth for 2006, excluding the impact of variable interest entities, will be in the range of 3% to 6%. Although Loblaw's adjusted basic net earnings per common share[(1)] growth is expected to increase during the balance of the year, the rate of growth is expected to be slower than originally projected given year-to-date results and therefore will be below previous guidance of 4% to 7%. For the full year, Loblaw expects adjusted basic net earnings per common share[(1)] to be in the range of 0% to 5% below 2005 results.

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.

NON-GAAP FINANCIAL MEASURES
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 for the reasons set out below. These measures do not have a standardized meaning prescribed by Canadian GAAP and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with Canadian GAAP.

Sales and Sales Growth Excluding the Impact of VIEs These financial measures exclude the impact on sales from the consolidation by the Company of certain Loblaw independent franchisees, which resulted from the implementation of AcG 15 retroactively without restatement effective January 1, 2005. This impact on sales is excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. Both the current and comparative measures reflect the retroactive implementation of EIC 156. A reconciliation of the financial measures to the Canadian GAAP financial measures is included in the tables "Sales and Sales Growth Excluding the Impact of VIEs" included on pages 3 and 9 of this MD&A.

Adjusted Operating Income and Margin Items listed in the reconciliation are excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. In addition, they affect the comparability of the financial results and could potentially distort the analysis of trends. The exclusion of these items does not imply that they are non-recurring. Adjusted operating income and margin are useful to management in assessing the Company's performance and in making decisions regarding the ongoing operations of its business. A reconciliation of the financial measures to the Canadian GAAP financial measures is included in the tables "Adjusted Operating Income" included on pages 3, 7 and 9 of this MD&A.

Adjusted operating margin is calculated as adjusted operating income divided by sales excluding the impact of VIEs.

Adjusted EBITDA and Margin Adjusted EBITDA is useful to management in assessing the Company's performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program. A reconciliation of the financial measures to the Canadian GAAP financial measures is included in the tables "Adjusted EBITDA" included on pages 3, 7 and 10 of this MD&A.

Adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales excluding the impact of VIEs.

(1) See Non-GAAP Financial Measures on page 16.

Adjusted Basic Net Earnings per Common Share from Continuing Operations Items listed in the reconciliation are excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. In addition, they affect the comparability of the financial results and could potentially distort the analysis of trends. The exclusion of these items does not imply that they are non-recurring. Adjusted basic net earnings per common share from continuing operations is useful to management in assessing the Company's performance and in making decisions regarding the ongoing operations of its business. A reconciliation of the financial measures to the Canadian GAAP financial measures is included in the table "Adjusted Basic Net Earnings per Common Share from Continuing Operations" included on page 4 of this MD&A.

Net Debt The following table reconciles net debt excluding exchangeable debentures to Canadian GAAP measures reported in the unaudited interim period consolidated balance sheets as indicated. 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. 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.

($ millions)	**Jun. 17, 2006**	Jun. 18, 2005
Bank indebtedness	**$ 191**	$ 135
Commercial paper	**865**	1,137
Short term bank loans	**157**	120
Long term debt due within one year	**226**	156
Long term debt	**5,897**	6,132
Less:		
Cash and cash equivalents	**984**	1,611
Short term investments	**605**	36
Net debt	**5,747**	6,033
Less: Exchangeable debentures	**225**	240
Net debt excluding exchangeable debentures	**$ 5,522**	$ 5,793

Total 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 indicated. The Company believes the return on average total assets ratio is useful in assessing the performance of its operating assets and therefore excludes cash, cash equivalents, short term investments, assets held for sale, assets of discontinued operations and the Domtar investment from the total assets used in this ratio.

($ millions)	**Jun. 17, 2006**	Jun. 18, 2005
Total assets(3)	**$ 18,883**	$ 18,356
Less:		
Cash and cash equivalents	**984**	1,611
Short term investments	**605**	36
Current assets of discontinued operations		60
Long term assets of discontinued operations	**4**	10
Domtar investment	**220**	235
Total assets	**$ 17,070**	$ 16,404

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

Consolidated Statements of Earnings
(unaudited)

($ millions except where otherwise indicated)	12 Weeks Ended Jun. 17, 2006	12 Weeks Ended Jun. 18, 2005	24 Weeks Ended Jun. 17, 2006	24 Weeks Ended Jun. 18, 2005
Sales (note 2)	**$ 7,507**	$ 7,242	**$ 14,504**	$ 14,150
Operating Expenses				
Cost of sales, selling and administrative expenses (note 2)	**6,945**	6,646	**13,450**	13,026
Depreciation and amortization	**166**	155	**327**	305
Restructuring and other charges (note 3)	**15**	17	**25**	103
	7,126	6,818	**13,802**	13,434
Operating Income	**381**	424	**702**	716
Interest Expense and Other Financing Charges (note 4)	**54**	59	**133**	146
Earnings from Continuing Operations Before the Following:	**327**	365	**569**	570
Income Taxes (note 5)	**67**	107	**132**	156
	260	258	**437**	414
Minority Interest	**76**	79	**125**	134
Net Earnings from Continuing Operations	**184**	179	**312**	280
Discontinued Operations (note 7)		(26)		(27)
Net Earnings	**$ 184**	$ 153	**$ 312**	$ 253
Net Earnings (Loss) per Common Share ($) - Basic and Diluted				
Continuing Operations (note 6)	**$ 1.32**	$ 1.33	**$ 2.23**	$ 2.06
Discontinued Operations		$ (0.20)		$ (0.21)
Net Earnings	**$ 1.32**	$ 1.13	**$ 2.23**	$ 1.85

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

Consolidated Statements of Retained Earnings
(unaudited)

($ millions except where otherwise indicated)	24 Weeks Ended Jun. 17, 2006	24 Weeks Ended Jun. 18, 2005
Retained Earnings, Beginning of Period	**$ 4,625**	$ 4,152
Net earnings	**312**	253
Dividends declared		
Per common share – $0.72 (2005 – $0.72)	**(93)**	(93)
Per preferred share – Series I – $0.73 (2005 – $0.73)	**(7)**	(7)
– Series II – $0.64 (2005 – $0.64)	**(7)**	(7)
– Series III – $0.65 (2005 – $0.26)	**(5)**	(2)
– Series IV – $0.65	**(5)**	
– Series V – $0.24	**(2)**	
Retained Earnings, End of Period	**$ 4,818**	$ 4,296

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

Consolidated Balance Sheets

($ millions)	As at Jun. 17, 2006 (unaudited)	As at Dec. 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 984**	$ 1,540
Short term investments	**605**	50
Accounts receivable (note 8)	**951**	933
Inventories	**2,251**	2,173
Income taxes	**90**	5
Future income taxes	**118**	134
Prepaid expenses and other assets	**120**	53
Total Current Assets	**5,119**	4,888
Fixed Assets	**8,993**	8,916
Goodwill and Intangible Assets	**3,316**	3,367
Future Income Taxes	**86**	89
Other Assets	**1,365**	1,321
Long Term Assets of Discontinued Operations (note 7)	**4**	12
Total Assets	**$ 18,883**	$ 18,593
LIABILITIES		
Current Liabilities		
Bank indebtedness	**$ 191**	$ 113
Commercial paper	**865**	498
Accounts payable and accrued liabilities	**2,846**	3,263
Short term bank loans	**157**	138
Long term debt due within one year	**226**	361
Current liabilities of discontinued operations (note 7)	**10**	10
Total Current Liabilities	**4,295**	4,383
Long Term Debt	**5,897**	5,913
Future Income Taxes	**336**	343
Other Liabilities	**608**	580
Minority Interest	**2,337**	2,255
Total Liabilities	**13,473**	13,474
SHAREHOLDERS' EQUITY		
Share Capital (note 11)	**1,208**	1,012
Retained Earnings	**4,818**	4,625
Cumulative Foreign Currency Translation Adjustment	**(616)**	(518)
Total Shareholders' Equity	**5,410**	5,119
Total Liabilities and Shareholders' Equity	**$ 18,883**	$ 18,593

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

Consolidated Cash Flow Statements
(unaudited)

($ millions)	12 Weeks Ended Jun. 17, 2006	12 Weeks Ended Jun. 18, 2005	24 Weeks Ended Jun. 17, 2006	24 Weeks Ended Jun. 18, 2005
Operating Activities				
Net earnings from continuing operations before minority interest	**$ 260**	$ 258	**$ 437**	$ 414
Depreciation and amortization	**166**	155	**327**	305
Restructuring and other charges (note 3)	**15**	17	**25**	103
Future income taxes	**9**	48	**7**	17
Fair value adjustment of Weston's forward sale agreement (note 4)	**(23)**	(20)	**(21)**	(14)
Change in non-cash working capital	**62**	(3)	**(728)**	(538)
Other	**(10)**	(44)	**17**	(38)
Cash Flows from Operating Activities of Continuing Operations	**479**	411	**64**	249
Investing Activities				
Fixed asset purchases	**(215)**	(270)	**(442)**	(526)
Short term investments	**(282)**		**(573)**	355
Proceeds on termination of financial derivatives				5
Proceeds from fixed asset sales	**4**	30	**13**	46
Credit card receivables, after securitization (note 8)	**(66)**	2	**52**	54
Franchise investments and other receivables	**10**	(10)	**(4)**	(34)
Other	**(12)**	(25)	**(21)**	(49)
Cash Flows used in Investing Activities of Continuing Operations	**(561)**	(273)	**(975)**	(149)
Financing Activities				
Bank indebtedness	**36**	2	**79**	(9)
Commercial paper	**(201)**	(140)	**367**	297
Short term debt loans – Issued	**9**	9	**19**	18
Long term debt – Issued		4	**4**	308
– Retired	**(132)**	(8)	**(138)**	(229)
Share capital – Issued	**194**	194	**194**	199
Subsidiary share capital – Issued				1
Dividends – To common shareholders	**(47)**	(47)	**(93)**	(93)
– To preferred shareholders	**(12)**	(6)	**(24)**	(13)
– To minority shareholders	**(22)**	(22)	**(22)**	(22)
Other	**2**	(1)	**2**	(2)
Cash Flows (used in) from Financing Activities of Continuing Operations	**(173)**	(15)	**388**	455
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents	**(36)**	15	**(34)**	30
Initial impact of Variable Interest Entities				20
Cash Flows (used in) from Continuing Operations	**(291)**	138	**(557)**	605
Cash Flows from (used in) Discontinued Operations (note 7)	**8**	3	**1**	(2)
Change in Cash and Cash Equivalents	**(283)**	141	**(556)**	603
Cash and Cash Equivalents, Beginning of Period	**1,267**	1,470	**1,540**	1,008
Cash and Cash Equivalents, End of Period	**$ 984**	$ 1,611	**$ 984**	$ 1,611

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

1. Summary of Significant Accounting Principles

Basis of Presentation
The unaudited interim period consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of application as those used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2005, except as described in note 2. 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 2005 Financial Report.

Basis of Consolidation
The unaudited interim period 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 second quarter of 2006 and at year end 2005. In addition, the Company consolidates variable interest entities ("VIEs") that are subject to control on a basis other than through ownership of a majority of voting interest.

Use of Estimates and Assumptions
The preparation of the unaudited interim period 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 unaudited interim period consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that may be undertaken in the future. Actual results could differ from these estimates.

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

Comparative Information
Certain prior period's information was reclassified to conform with the current period's presentation (see note 2).

2. Accounting Standards Implemented in 2006

Effective January 1, 2006, the Company implemented Emerging Issues Committee Abstract 156, "Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" ("EIC 156"), issued by the Canadian Institute of Chartered Accountants in September 2005. EIC 156 addresses cash consideration, including sales incentives, given by a vendor to a customer. This consideration is presumed to be a reduction of the selling price of the vendor's products and should therefore be classified as a reduction of sales in the vendor's statement of earnings.

Prior to the implementation of EIC 156, Loblaw recorded certain sales incentives paid to independent franchisees, associates and independent accounts in cost of sales, selling and administrative expenses on the statement of earnings. Accordingly, the implementation of EIC 156 on a retroactive basis, resulted in a reduction in both sales and cost of sales, selling and administrative expenses of $31 million for the second quarter of 2005 and $95 million for the first half of 2005. As reclassifications, these changes did not impact net earnings from continuing operations.

3. Restructuring and Other Charges

The following table summarizes the restructuring and other charges:

	12 Weeks Ended					
			Jun. 17, 2006			Jun. 18, 2005
($ millions)	**Weston Foods**	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Fixed asset impairment		**$ 1**	**$ 1**			
Accelerated depreciation	**$ 7**		**7**	$ 5	$ 2	$ 7
Employee termination benefits		**4**	**4**	3	2	5
Site closing and other exit costs	**3**		**3**	1	4	5
	$ 10	**$ 5**	**$ 15**	$ 9	$ 8	$ 17

	24 Weeks Ended					
			Jun. 17, 2006			Jun. 18, 2005
($ millions)	**Weston Foods**	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Fixed asset impairment		**$ 2**	**$ 2**		$ 4	$ 4
Accelerated depreciation	**$ 11**		**11**	$ 8	2	10
Employee termination benefits	**1**	**4**	**5**	29	52	81
Site closing and other exit costs	**5**	**2**	**7**	3	5	8
	$ 17	**$ 8**	**$ 25**	$ 40	$ 63	$ 103

Weston Foods

During the second quarter of 2006, Weston Foods approved a plan to close a frozen bagel plant in Nebraska. The closure was completed early in the third quarter of 2006. As a result of this restructuring, Weston Foods expects to recognize total accelerated depreciation of $5 million and employee termination benefits and other exit related costs of $2 million over the second and third quarters of 2006. During the second quarter of 2006 and year-to-date, Weston Foods recognized $5 million of restructuring and other charges related to this plan, consisting of $4 million of accelerated depreciation and $1 million of employee termination benefits and other exit related costs.

During 2005, Weston Foods approved a plan to restructure its United States biscuit operations. This plan will result in the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia by the end of 2006. Employment at both facilities 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 startup costs of approximately $50 million over 2005 and 2006, including employee related severance and benefit costs, production equipment relocations, training and other facility startup 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 second quarter of 2006, Weston Foods recognized $3 million of accelerated depreciation and $2 million of employee termination benefits and other exit related costs in connection with this restructuring plan. On a year-to-date basis for 2006, Weston Foods recognized $7 million of accelerated depreciation and $5 million of employee termination benefits and other exit related costs in connection with this restructuring activity. At the end of the second quarter of 2006, a total of $22 million of accelerated depreciation and $33 million of employee termination benefits and other exit costs, on a cumulative basis, have been recognized related to this restructuring plan.

Year-to-date 2006, approximately $10 million (2005 – $6 million) of severance and other cash exit costs were paid related to restructuring activities. As at the end of the second quarter of 2006, accrued liabilities related to restructuring plans were $22 million.

Loblaw

During 2005, management of Loblaw approved a comprehensive plan to restructure its supply chain operations nationally. The restructuring plan is expected to be completed by the end of 2008 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 second quarter of 2006, Loblaw recognized $5 million (2005 – $3 million) of restructuring costs resulting from this plan. At the end of the second quarter of 2006, $21 million in estimated costs remain to be incurred and will be recognized as appropriate criteria are met. The year-to-date charge of $7 million (2005 – $54 million) is composed of $4 million (2005 – $47 million) for employee termination benefits resulting from planned involuntary terminations and $3 million (2005 – $7 million) of other costs directly associated with these initiatives.

Loblaw consolidated several administrative and operating offices from across southern Ontario into a new national head office and Store Support Centre in Brampton, Ontario and reorganized the merchandising, procurement and operations groups which included the transfer of the general merchandise operations from Calgary, Alberta to the new office. During the first half of 2006, Loblaw recognized $1 million (2005 – $9 million) of restructuring costs resulting from this restructuring activity. All of the expected $25 million of costs related to these initiatives were recognized by the end of the first quarter of 2006.

Year-to-date 2006, approximately $6 million (2005 – $7 million) of severance and other cash exit costs were paid related to the above restructuring activities. As at the end of the second quarter of 2006, accrued liabilities and other liabilities related to these restructuring activities were $9 million and $23 million, respectively. In addition, other assets were $9 million representing defined benefit pension plan costs related to these restructuring activities.

4. Interest Expense and Other Financing Charges

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Interest on long term debt	**$ 91**	$ 96	**$ 183**	$ 190
Interest on financial derivative instruments	**3**	(2)	**5**	(5)
Other financing charges(1)	**(28)**	(25)	**(31)**	(23)
Net short term interest	**(7)**	(5)	**(14)**	(6)
Capitalized to fixed assets	**(5)**	(5)	**(10)**	(10)
Interest expense and other financing charges	**$ 54**	$ 59	**$ 133**	$ 146

(1) Other financing charges for the second quarter and year-to-date 2006 includes non-cash income of $23 million (2005 – $20 million) and $21 million (2005 – $14 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 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. Also included in other financing charges is income of $5 million (2005 – $5 million) for the second quarter of 2006 and income of $10 million (2005 – $9 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 second quarter and year-to-date 2006 was $117 million and $208 million (2005 – $103 million and $191 million), respectively.

5. Income Taxes

Net income taxes paid in the second quarter and year-to-date 2006 were $82 million and $201 million (2005 – $102 million and $247 million), respectively.

The cumulative effects of changes in Canadian federal and certain provincial statutory income tax rates on future income tax assets and liabilities are included in the consolidated financial statements at the time of substantive enactment. Accordingly, in the second quarter of 2006, a $24 million reduction to future income tax expense was recognized as a result of the reduction in the Canadian federal and certain provincial statutory income tax rates.

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

	12 Weeks Ended		24 Weeks Ended	
($ millions except where otherwise indicated)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Net earnings from continuing operations	**$ 184**	$ 179	**$ 312**	$ 280
Prescribed dividends on preferred shares	**(13)**	(7)	**(24)**	(14)
Net earnings from continuing operations available to common shareholders	**$ 171**	$ 172	**$ 288**	$ 266
Weighted average common shares outstanding (in millions)	**129.0**	129.0	**129.0**	129.0
Dilutive effect of stock-based compensation (in millions)(1)	**0.1**	0.3	**0.1**	0.2
Diluted weighted average common shares outstanding (in millions)	**129.1**	129.3	**129.1**	129.2
Basic and diluted net earnings per common share from continuing operations ($)	**$ 1.32**	$ 1.33	**$ 2.23**	$ 2.06

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

	12 Weeks Ended		24 Weeks Ended	
Option Exercise Price	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
$93.35	**579,000**		**579,000**	
$95.88	**100,130**		**100,130**	
$100.00	**175,400**		**175,400**	
$111.02	**572,384**	585,532	**572,384**	585,532

7. Discontinued Operations

In December 2004, management approved a strategic plan to actively market for sale the remaining Fisheries operations. During 2005, the Company completed the previously announced sales of the remaining discontinued Fisheries operations. As a result of these sales, the Company will receive total net proceeds of $38 million, of which $12 million was deferred and will be received over the next three years. During the second quarter of 2006, $8 million of cash was received, primarily related to the deferred proceeds.

During the first quarter of 2006, the Company reached an agreement to settle claims against it relating to certain alleged misrepresentations and warranties arising from the sale of the Company's forest product business in 1998, including tax related representations and warranties dealing with years prior to 1998. The Company did not admit any wrongdoing or liability in connection with the settlement. The Company had previously accrued for certain of these tax related claims in prior years. A payment of $7 million was made as a result of this settlement.

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

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Sales		$ 41		$ 71
Loss from discontinued operations		$ 26		$ 27

The assets and liabilities of discontinued operations were as follows:

	As at	
($ millions)	**Jun. 17, 2006**	Dec. 31, 2005
Long term assets of discontinued operations:		
Other assets	**$ 4**	$ 12
Current liabilities of discontinued operations:		
Accounts payable and accrued liabilities	**$ 10**	$ 10

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

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Cash flows from (used in) operations	**$ 2**	$ 3	**$ (5)**	$ (1)
Cash flows from (used in) investing	**6**		**6**	(1)
Cash flows from (used in) discontinued operations	**$ 8**	$ 3	**$ 1**	$ (2)

8. Credit Card Receivables

During the second quarter of 2006, $60 million (2005 – $90 million) of credit card receivables were securitized, $115 million (2005 – $100 million) year-to-date, by President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw, through the sale of a portion of the total interest in these receivables to an independent trust. The securitization yielded a nominal net loss (2005 – nominal net loss) based on the assumptions disclosed in note 11 to the consolidated financial statements for the year ended December 31, 2005. The independent trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported by Loblaw through a standby letter of credit for 9% (2005 – 15%) of the securitized amount.

	As at	
($ millions)	**Jun. 17, 2006**	Dec. 31, 2005
Credit card receivables	**$ 1,317**	$ 1,257
Amount securitized	**(1,125)**	(1,010)
Net credit card receivables	**$ 192**	$ 247

During the first quarter of 2006, PC Bank restructured its credit card securitization program. Eagle Credit Card Trust ("Eagle"), a previously established independent trust, issued $500 million of five year senior and subordinated notes at a weighted average rate of 4.5% to finance the purchase of credit card receivables previously securitized by PC Bank through an independent trust. The subordinated notes provide credit support to those notes which are more senior. PC Bank will continue to service the credit card receivables on behalf of Eagle, but will not receive any fee for its servicing obligations and has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. The restructuring of the portfolio yielded a nominal net loss.

9. Employee Future Benefits

The Company's total net benefit plan cost recognized in operating income was $51 million and $107 million (2005 – $48 million and $92 million) for the second quarter and year-to-date 2006, 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 second quarter of 2006, Loblaw repaid its $125 million of 8.70% Series 1996 Provigo Inc. Debenture as it matured.

11. Share Capital

Common Shares

	As at	
	Jun. 17, 2006	Dec. 31, 2005
Actual common shares outstanding (in millions)	**129.0**	129.0
Weighted average common shares outstanding (in millions)	**129.0**	129.0
Market price per common share	**$ 83.41**	$ 86.31

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

During the second quarter of 2006, Weston issued 8.0 million 4.75% Preferred Shares, Series V for $25.00 per share for net proceeds of $194 million which entitle the holder to a fixed cumulative preferred cash dividend of $1.1875 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, 2011 Weston may, at its option, redeem for cash in whole or in part these outstanding preferred shares as follows:

On or after July 1, 2011 at $26.00 per share
On or after July 1, 2012 at $25.75 per share
On or after July 1, 2013 at $25.50 per share
On or after July 1, 2014 at $25.25 per share
On or after July 1, 2015 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 the holder's 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, related equity derivatives and restricted share unit plans:

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Stock option plans/share appreciation right plan (income) expense	**$ (7)**	$ (1)	**$ (5)**	$ 4
Equity derivatives loss	**15**	5	**13**	6
Restricted share unit plan expense	**7**	3	**11**	5
Net stock-based compensation cost	**$ 15**	$ 7	**$ 19**	$ 15

During the first half of 2006, Weston paid the share appreciation value of $0.4 million (2005 – $7 million) on the exercise of 10,670 (2005 – 179,070) stock options and share appreciation rights. In addition, 7,333 (2005 – 28,000) stock options and share appreciation rights were forfeited or cancelled during the first half of 2006. Loblaw paid the share appreciation value of $1 million (2005 – $37 million) on the exercise of 70,868 (2005 – 992,069) stock options and 34,230 (2005 – 18,762) of Loblaw's stock options were forfeited or cancelled during the first half of 2006. Under its existing stock option plan, Loblaw granted 140,612 (2005 – 66,255) stock options with an exercise price of $55.50 (2005 – $72.95) per common share during the second quarter of 2006 and 48,742 (2005 – 2,152,252) stock options with an exercise price of $54.71 (2005 – $69.63) per common share during the first quarter of 2006.

At the end of the second quarter of 2006, a total of 2,113,297 (2005 – 2,107,095) stock options and share appreciation rights were outstanding, which represented approximately 1.6% (2005 – 1.6%) of Weston's issued and outstanding common shares. The stock options and share appreciation rights were within the Company's guideline of 5% of the total number of outstanding common shares.

Restricted Share Unit ("RSU") Plan

Under its existing RSU plan, Weston granted 5,000 (2005 – 142,685) RSUs in the second quarter of 2006 and 143,049 (2005 – nil) RSUs in the first quarter of 2006. In addition, 1,283 (2005 – nil) RSUs were cancelled in the first half of 2006. At the end of the second quarter of 2006, a total of 306,667 (2005 – 142,685) Weston RSUs were outstanding. Loblaw granted 46,289 (2005 – 11,594) RSUs in the second quarter of 2006 and 644,712 (2005 – 376,645) RSUs in the first quarter of 2006 under it existing RSU plan. In addition, 5,361 (2005 – nil) RSUs were cancelled and 562 (2005 – nil) were settled in cash in the first half of 2006. At the end of the second quarter of 2006, a total of 1,068,262 (2005 – 388,239) Loblaw RSUs were outstanding.

13. Segment Information

The Company has two reportable operating segments: Weston Foods and Loblaw. The accounting policies of the segments are the same as those described herein and in Weston's 2005 Financial Report. The Company measures each segment's performance based on operating income. No segment is reliant on any single external customer.

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 17, 2006**	Jun. 18, 2005	**Jun. 17, 2006**	Jun. 18, 2005
Sales				
Weston Foods	**$ 999**	$ 1,024	**$ 2,027**	$ 2,051
Loblaw	**6,699**	6,405	**12,846**	12,465
Intersegment	**(191)**	(187)	**(369)**	(366)
Consolidated	**$ 7,507**	$ 7,242	**$ 14,504**	$ 14,150
Operating Income				
Weston Foods(1)	**$ 56**	$ 57	**$ 120**	$ 92
Loblaw(2)	**325**	367	**582**	624
Consolidated	**$ 381**	$ 424	**$ 702**	$ 716

(1) Operating income for the second quarter of 2006 and year-to-date 2006 includes restructuring and other charges of $10 (2005 – $9) and $17 (2005 – $40), respectively (see note 3).

(2) Operating income for the second quarter of 2006 and year-to-date 2006 includes restructuring and other charges of $5 (2005 – $8) and $8 (2005 – $63), respectively (see note 3).

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 Loblaw, which is operated by Loblaw Companies Limited. The Weston Foods operating segment is primarily engaged in the baking and dairy industries within North America. Loblaw is Canada's largest food distributor and a leading provider of general merchandise, drugstore and financial products and services.

Trademarks

George Weston Limited and its subsidiaries own a number of trademarks. These trademarks are the exclusive property of Weston and its subsidiary companies and 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, Financial Services and Investor Relations at the Company's Executive Office or by e-mail at investor@weston.ca.

Additional 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. This call will be 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 subsidiary company with shares trading on the Toronto Stock Exchange.

Ce rapport est disponible en français.

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