Q3

George Weston Limited

Quarterly Report to Shareholders

40 Weeks Ended October 6, 2007

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 and are contained in discussions regarding the Company's objectives, plans, goals, aspirations, strategies, potential future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically, though not always, 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 nutritional and health related concerns, changes in the competitive environment, including changes in pricing and market strategies of the Company or of 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 financial performance of the Company's franchisees, the terms and conditions of financing programs offered to the Company's franchisees, the ability to realize anticipated cost savings and efficiencies, including those resulting from the Company's major initiatives, inventory liquidation, information technology and supply chain investments and other cost reduction and simplification initiatives, the ability to execute the Company's major initiatives, implement strategies and introduce innovative products successfully and in a timely manner, changes in the markets for the inventory intended for liquidation and changes in the expected realizable value and costs associated with the liquidation, unanticipated, increased or decreased costs associated with the announced initiatives, including those related to compensation costs, 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, the inherent uncertainty regarding the outcome of litigation or any dispute resolution initiative, the adoption of new accounting standards and changes in the Company's use of accounting estimates including in relation to inventory valuation, 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.

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 and neither the Company nor its existing competitors unexpectedly significantly increase their presence or change pricing or market strategies materially, the Company's franchisees perform as expected, the Company successfully offers new and innovative products and executes its strategies as planned, anticipated cost savings and efficiencies are realized as planned, continuing and future initiatives are effectively executed in a timely manner, the Company's assumptions regarding average compensation costs and average years of service for employees affected by the simplification initiatives are materially correct, the Company does not significantly change its approach to its current major initiatives, there is no material amount of excess inventory in the Company's supply chain, there are no material work stoppages and the performance of third-party service providers is in accordance with expectations.

These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies. This list of 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 Risks and Risk Management and Financial Risks and Risk Management sections of the MD&A included in Weston's 2006 Financial Report.

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 disclaims any obligation or intention 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.

CONSOLIDATED RESULTS OF OPERATIONS

George Weston Limited's third quarter 2007 basic net earnings per common share were $1.25, a decrease of 22.8% compared to $1.62 in 2006. Weston's third quarter 2007 adjusted basic net earnings per common share[(1)] were $1.21 compared to $1.63 in 2006, a decrease of 25.8%. The items identified in determining adjusted basic net earnings per common share[(1)] in this and in the previous quarter are discussed in the MD&A.

Sales for the third quarter of 2007 were $10.2 billion, an increase of 0.8% compared to 2006 and included decreases of 1.5% due to the continued decrease in tobacco sales at Loblaw Companies Limited ("Loblaw") and 0.6% due to foreign currency translation, and an increase of 0.1% due to the consolidation of variable interest entities ("VIEs") by Loblaw.

Operating income for the third quarter of 2007 was $376 million, compared to $465 million in 2006, a decrease of 19.1%. Adjusted operating income[(1)] for the third quarter of 2007 was $413 million compared to $538 million in the third quarter of 2006, a decrease of 23.2%, which resulted in an adjusted operating margin[(1)] of 4.3% compared to 5.7% in the prior year. The items identified in determining adjusted operating income[(1)] in this and the previous quarter are also discussed in the MD&A.

Interest expense and other financing charges for the third quarter of 2007 increased 63.3% to $49 million from $30 million in 2006. The increase was primarily due to decreased non-cash income to $44 million (2006 – non-cash income of $69 million) related to the accounting for Weston's 2001 forward sale agreement of 9.6 million Loblaw common shares. This increase was partially offset by a decrease in interest expense due to a decline in the Company's weighted average net debt levels when compared to the same period in 2006, as a result of the improvement in free cash flow[(1)], as more fully discussed below.

The effective income tax rate increased to 30.9% in the third quarter of 2007 compared to 29.2% in 2006, primarily due to the net future income tax impact associated with the re-measurement of Weston 3% Exchangeable Debentures. In addition, the Company's effective income tax rate was favourably impacted by a change in the proportion of taxable income earned across different tax jurisdictions.

Free cash flow[(1)] for the third quarter of 2007 was $232 million compared to negative $35 million in the third quarter of 2006 and on a year-to-date basis was $227 million compared to negative $552 million in 2006. The third quarter and year-to-date improvements are primarily due to increased cash flows from working capital and a reduction in capital expenditures.

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 third quarter of 2007 of $1.3 billion decreased 2.8% compared to the same period in 2006, as a result of a sales increase of 1.5% offset by the negative impact of foreign currency translation on reported sales growth of approximately 4.3%. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 2.6% for the third quarter of 2007. Overall volume decreased 1.1% for the third quarter of 2007 and was negatively impacted by approximately 0.4% due to the combined effect of the exit from the United States frozen foodservice bagel business during the third quarter of 2006 and the discontinuance of contract manufacturing of biscuits for certain customers during 2006. The remaining decline of 0.7% in the third quarter was largely the result of lower biscuit sales, partially offset by favourable timing of orders in frozen bakery.

Weston Foods adjusted operating income[(1)] for the third quarter of 2007 was $128 million compared to $106 million in 2006, an increase of 20.8%, and was impacted positively by price increases and changes in sales mix and by the benefits realized from the continued focus on cost reduction initiatives, including restructuring activities. Adjusted operating margin[(1)] in the third quarter of 2007 was 9.9% compared to 7.9% in the same period in 2006.

(1) See Non-GAAP Financial Measures on page 22.

Loblaw

Loblaw sales for the third quarter of 2007 increased 1.4% or $127 million to $9.1 billion compared to the third quarter of 2006. Sales volume based on retail units sold grew by 1.9% in the third quarter compared to the same period last year. Internal retail food price inflation was estimated to be 0.5% in the third quarter of 2007 and internal produce price deflation was estimated at 6.8%. Food and produce retail prices were affected by the pass-through of benefits to the customer from the stronger Canadian dollar. Sales in food and drugstore were strong in the quarter. A delayed launch of *Joe Fresh Style* children's apparel and intimates adversely affected general merchandise sales in the quarter. General merchandise sales were also lower because of the intentional restriction of inventory while Loblaw continued to work on optimizing inventory controls, product mix and markdown strategies. New *PC* signature products and campaigns significantly increased consumers' purchase intentions which translated into solid sales increases of these products. Total sales increases were realized across all regions of the country. In the third quarter of 2006, a major tobacco supplier commenced shipping directly to certain customers of Loblaw's cash & carry and wholesale club network, adversely impacting sales. This loss of sales will not affect comparisons to 2006 sales after the third quarter of this year. Same-store sales, excluding the impact of decreased tobacco sales, increased by 2.8%. Total sales excluding the impact of tobacco sales and variable interest entities(1) increased by 3.1%.

Loblaw earned operating income of $248 million in the third quarter of 2007 compared to $396 million during the same period in 2006. Sales increases in the quarter were insufficient to offset margin declines and cost increases. The reduction of $148 million in operating income versus the same period last year was affected by the following items:

- targeted price reductions were implemented to provide value to customers and drive same-store sales and sales volumes which, in addition to sales mix changes, contributed to a gross margin decline of approximately $60 million from last year, representing 0.7% of sales;
- incremental consulting costs compared to the prior year, other than those in connection with Project Simplify, amounted to $45 million including expenses related to new supply chain and information technology improvement initiatives of $8 million;
- legislative changes introduced in 2006 by the Ontario government reduced pharmacy-related operating income by $8 million; and
- adjustments in estimates related to post-employment and long term disability benefits and deferred product development and information technology costs reduced operating income by $24 million in the quarter.

Operating margin was 2.7% compared to 4.4% in the third quarter of 2006.

In the third quarter, certain charges were recorded in connection with initiatives previously disclosed, as follows:

- Part of Project Simplify involves the restructuring and streamlining of the merchandising and store operations. This initiative includes a reduction of approximately 1,000 employees in the National Head Office and Store Support Centre and regional offices and is well advanced. The total restructuring costs under this plan, comprised primarily of severance costs, are now anticipated to be approximately $185 million. In addition to the $145 million of restructuring costs resulting from this plan, which were recognized in the first half of the year, an additional $23 million was recognized in the third quarter, comprised of $10 million for employee termination benefits including severance, additional pension costs resulting from the termination of employees and retention costs; and $13 million of other costs, primarily consulting.
- A charge of $1 million was recorded in connection with the previously announced plan to restructure Loblaw's supply chain network.
- Efforts to liquidate excess inventory are nearing completion and an additional charge of $3 million was recorded in the third quarter.

Adjusted operating income(1) in the third quarter of 2007 was $285 million compared to $432 million in 2006, and adjusted operating margins(1) were 3.3% and 5.1%, respectively.

(1) See Non-GAAP Financial Measures on page 22.

OUTLOOK

The consolidated results of George Weston Limited for 2007 will continue to reflect the changes undertaken by both the Weston Foods and Loblaw operating businesses in order to position them for strong growth in the future.

For the remainder of the year, Weston Foods expects sales growth to be constrained by any further appreciation of the Canadian dollar. Adjusted operating margin is expected to be consistent with that experienced on a year-to-date basis.

This quarter Loblaw was heavily affected by the costs of implementing its initiatives for the future including the continued investment in pricing. The Loblaw team is settling into their new functions and responsibilities. Loblaw's core initiatives are on track and Loblaw is satisfied with progress so far, but the three to five year turnaround effort will inevitably have bumps along the way. In the fourth quarter, solid sales volume growth but continued reduced margins are expected. Results in the first half of next year may be affected by more difficult comparables. Loblaw's longer term focus will be on increasing sales momentum and cost reduction to improve margins over time.

W. Galen Weston

W. Galen Weston
Chairman and President

Toronto, Canada
November 19, 2007

The following MD&A for George Weston Limited should be read in conjunction with Weston's 2007 unaudited interim period consolidated financial statements and the accompanying notes on pages 24 to 40 of this Quarterly Report and the audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2006 and the related annual MD&A included in Weston's 2006 Financial Report. Weston's 2007 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 unaudited 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 99 of Weston's 2006 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, the Domtar (Canada) Paper Inc. investment and assets of discontinued operations; and "rolling year return on average common shareholders' equity", which is defined as cumulative net earnings available to common shareholders for the latest four quarters divided by average total common shareholders' equity.

The information in this MD&A is current to November 19, 2007, unless otherwise noted.

CONSOLIDATED RESULTS OF OPERATIONS

Sales and Sales Growth Excluding the Impact of Tobacco Sales and VIEs(1)

	16 Weeks Ended		40 Weeks Ended	
($ millions except where otherwise indicated)	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
Total sales	**$ 10,163**	$ 10,085	**$ 25,123**	$ 24,589
Less: Sales attributable to tobacco sales	**341**	487	**794**	1,181
Sales attributable to the consolidation of VIEs	**133**	121	**348**	291
Sales excluding the impact of tobacco sales and VIEs(1)	**$ 9,689**	$ 9,477	**$ 23,981**	$ 23,117
Total sales growth	**0.8%**		**2.2%**	
Less: Impact on sales growth attributable to tobacco sales	**(1.5)%**		**(1.7)%**	
Impact on sales growth attributable to the consolidation of VIEs	**0.1%**		**0.2%**	
Sales growth excluding the impact of tobacco sales and VIEs(1)	**2.2%**		**3.7%**	

Adjusted Operating Income(1)

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
Operating income	**$ 376**	$ 465	**$ 913**	$ 1,167
Add (deduct) impact of the following:				
Restructuring and other charges	**33**	14	**188**	39
Inventory liquidation	**3**		**12**	
Departure entitlement charge		12		12
Commodity futures fair value adjustment	**(13)**	3	**(25)**	3
Net effect of stock-based compensation and the associated equity derivatives	**30**	52	**32**	71
VIEs	**(9)**	(8)	**(7)**	(8)
Curtailment of post-retirement plan	**(7)**		**(7)**	
Adjusted operating income(1)	**$ 413**	$ 538	**$ 1,106**	$ 1,284

(1) See Non-GAAP Financial Measures on page 22.

Adjusted EBITDA[1]

($ millions)	16 Weeks Ended Oct. 6, 2007	16 Weeks Ended Oct. 7, 2006	40 Weeks Ended Oct. 6, 2007	40 Weeks Ended Oct. 7, 2006
Adjusted operating income[1]	**$ 413**	$ 538	**$ 1,106**	$ 1,284
Add (deduct) impact of the following:				
Depreciation and amortization	**214**	219	**542**	546
VIEs depreciation and amortization	**(11)**	(7)	**(27)**	(19)
Adjusted EBITDA[1]	**$ 616**	$ 750	**$ 1,621**	$ 1,811

Adjusted basic net earnings per common share[1]

($)	16 Weeks Ended Oct. 6, 2007	16 Weeks Ended Oct. 7, 2006	40 Weeks Ended Oct. 6, 2007	40 Weeks Ended Oct. 7, 2006
Basic net earnings per common share	**$ 1.25**	$ 1.62	**$ 2.85**	$ 3.85
Add (deduct) impact of the following:				
Restructuring and other charges	**0.12**	0.06	**0.59**	0.16
Inventory liquidation	**0.01**		**0.04**	
Departure entitlement charge		0.04		0.04
Commodity futures fair value adjustment	**(0.06)**	0.01	**(0.12)**	0.01
Net effect of stock-based compensation and the associated equity derivatives	**0.18**	0.29	**0.22**	0.41
Accounting for the forward sale agreement of Loblaw common shares	**(0.24)**	(0.38)	**(0.17)**	(0.49)
Changes in statutory income tax rates				(0.14)
VIEs	**(0.02)**	(0.01)	**(0.01)**	
Curtailment of post-retirement plan	**(0.03)**		**(0.03)**	
Adjusted basic net earnings per common share[1]	**$ 1.21**	$ 1.63	**$ 3.37**	$ 3.84

Sales Sales for the third quarter of 2007 increased 0.8%, or $78 million, to $10.2 billion from $10.1 billion in 2006, including a decline of 1.5% due to the continued decrease in tobacco sales at Loblaw and an increase of 0.1% in sales relating to the consolidation of certain Loblaw independent franchisees as required by AcG 15. On a year-to-date basis, sales increased 2.2% to $25.1 billion, including a decline of 1.7% due to the continued decrease in tobacco sales at Loblaw and an increase of 0.2% in sales relating to the consolidation of certain Loblaw independent franchisees. In the third quarter of 2007 and on a year-to-date basis, sales excluding the impact of tobacco sales and VIEs[1] increased by 2.2% and 3.7% over the respective periods in 2006. The translation of United States dollar denominated sales in the Weston Foods operating segment reduced consolidated sales growth by approximately 0.6% for the third quarter of 2007 and 0.2% on a year-to-date basis. The Company's consolidated sales for the third quarter of 2007 were impacted by each of its reportable operating segments as follows:

- Negatively by 0.4% at Weston Foods as a result of a sales decrease of 2.8% which included the negative impact of foreign currency translation on reported sales growth of approximately 4.3%. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 2.6% for the third quarter of 2007. Overall volume decreased 1.1% for the third quarter of 2007 and was negatively impacted by approximately 0.4% due to the combined effect of the exit from the United States frozen foodservice bagel business during the third quarter of 2006 and the discontinuance of contract manufacturing of biscuits for certain customers during 2006. The remaining decline of 0.7% in the third quarter was largely the result of lower biscuit sales, partially offset by favourable timing of orders in frozen bakery.

(1) See Non-GAAP Financial Measures on page 22.

- Positively by 1.3% due to sales growth of 1.4% at Loblaw, including a decline of 1.8% due to the continued decrease in tobacco sales and an increase of 0.1% in sales relating to the consolidation of certain independent franchisees as required by AcG 15. Total sales increases were realized across all regions of the country. Sales in food, general merchandise and drugstore were strong in the quarter. A delayed launch of *Joe Fresh Style* children's apparel and intimates adversely affected general merchandise sales in the quarter. Same-store sales excluding the impact of the continued decrease in tobacco sales increased by 2.8%. Total sales excluding the impact of tobacco sales and VIEs[(1)] increased by 3.1%. In the third quarter of 2006, a major tobacco supplier commenced shipping directly to certain customers of Loblaw's cash & carry and wholesale club network, adversely impacting sales. This loss of sales will not affect comparisons to 2006 sales beyond the third quarter of 2007.

Operating Income Operating income for the third quarter of 2007 was $376 million compared to $465 million in 2006, a decrease of 19.1%. Operating margin for the third quarter of 2007 was 3.7% compared to 4.6% in the same period in 2006. Operating income included restructuring and other charges in the third quarter of 2007 of $33 million (2006 – $14 million), inventory liquidation charges of $3 million (2006 – nil), non-cash income of $7 million (2006 – nil) from the curtailment of a post-retirement plan at Weston Foods, non-cash income of $13 million (2006 – non-cash charge of $3 million) related to a commodity futures fair value adjustment at Weston Foods and a charge for stock-based compensation net of the impact of the associated equity derivatives of $30 million (2006 – $52 million). In addition, third quarter operating income for 2007 included income of $9 million (2006 – $8 million) resulting from the consolidation of VIEs. Third quarter 2006 operating income also included a departure entitlement charge of $12 million at Loblaw. After adjusting for the impact of the items described above, adjusted operating income[(1)] was $413 million compared to $538 million in 2006, a decline of 23.2%. The Company's adjusted operating income[(1)] was impacted by each of its reportable operating segments as follows:

- Positively by 4.1% due to an increase of 20.8% in adjusted operating income[(1)] at Weston Foods, including the benefits of price increases, changes to sales mix, as well as a continued focus on cost reduction initiatives.

- Negatively by 27.3% due to a decline of 34.0% in adjusted operating income[(1)] at Loblaw. Loblaw's aggregate gross margin percentage continued to decline in the third quarter of 2007 as a result of its continued investment in lower prices, as part of its Credit for Value initiative, to drive comparable sales growth in a targeted manner across the country. Sales increases in the quarter were insufficient to offset margin declines and cost increases. Loblaw continues to experience higher store operating costs including store labour costs compared to the third quarter of 2006.

Year-to-date operating income for 2007 was $913 million compared to $1,167 million in 2006, a decrease of 21.8%. Operating margin for year-to-date 2007 was 3.6% compared to 4.7% in 2006. Operating income included restructuring and other charges of $188 million (2006 – $39 million), a charge for the Loblaw inventory liquidation of $12 million (2006 – nil), non-cash income of $7 million (2006 – nil) from the curtailment of a post-retirement plan at Weston Foods, non-cash income of $25 million (2006 – non-cash charge of $3 million) related to a commodity futures fair value adjustment at Weston Foods and stock-based compensation charge of $32 million (2006 – $71 million). In addition, operating income for 2007 includes income of $7 million (2006 – $8 million) resulting from the consolidation of VIEs. 2006 operating income also included a departure entitlement charge of $12 million at Loblaw. After adjusting for the impact of the items described above, year-to-date adjusted operating income was $1,106 million in 2007 compared to $1,284 million in 2006, a decline of 13.9%.

The Company's third quarter 2007 adjusted operating margin[(1)] decreased to 4.3% from 5.7% in 2006 and the adjusted EBITDA margin[(1)] decreased to 6.4% from 7.9% in 2006, 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 adjusted operating margin[(1)] decreased to 4.6% from 5.6% in 2006 and the adjusted EBITDA margin[(1)] decreased to 6.8% from 7.8% in 2006.

(1) See Non-GAAP Financial Measures on page 22.

Interest Expense and Other Financing Charges Interest expense and other financing charges for the third quarter of 2007 increased $19 million, or 63.3%, to $49 million from $30 million in 2006.
The change was mainly the result of:

- In the third quarter of 2007, non-cash income of $44 million (2006 – $69 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 or loss on Weston's disposition of the underlying Loblaw shares.

- Increased net short term interest income of $20 million compared to $14 million in 2006, primarily due to higher United States dollar denominated cash, cash equivalents and short term investments.

- During the third quarter of 2007, $6 million (2006 – $6 million) of interest expense was capitalized to fixed assets.

Year-to-date interest expense and other financing charges increased by $40 million to $203 million from $163 million in 2006. This increase is primarily due to a decrease in non-cash income to $31 million (2006 – $90 million) related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares, partially offset by reduced long term debt and increased net interest income on short term United States dollar denominated investments.

Income Taxes The effective income tax rate increased to 30.9% in the third quarter of 2007 compared to 29.2% in the third quarter of 2006 and on a year-to-date basis increased to 26.8% from 25.8% in 2006. The increases are primarily due to the net future income tax impact associated with the re-measurement of Weston 3% Exchangeable Debentures. In addition, the Company's effective income tax rate was favourably impacted by a change in the proportion of taxable income earned across different tax jurisdictions. The cumulative reduction in the future income tax expense recorded in 2006 as a result of the change in the Canadian federal and certain provincial statutory income tax rates also contributed to the year-to-date increase.

Net Earnings Net earnings for the third quarter of 2007 decreased $47 million, or 20.8% to $179 million from $226 million in 2006 and on a year-to-date basis decreased $126 million, or 23.4% to $412 million from $538 million in 2006. Basic net earnings per common share for the third quarter of 2007 decreased $0.37, or 22.8%, to $1.25 from $1.62 in 2006 and year-to-date decreased $1.00, or 26.0% to $2.85 from $3.85 in 2006.

Third quarter 2007 basic net earnings per common share of $1.25 (2006 – $1.62 per common share) included a net positive impact of $0.04 (2006 – net negative impact of $0.01 per common share) as a result of the following factors:

- a $0.12 per common share charge (2006 – $0.06 per common share charge) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;

- a $0.01 per common share charge (2006 – nil) related to the Loblaw inventory liquidation;

- $0.06 per common share non-cash income (2006 – $0.01 per common share non-cash charge) related to the commodity futures fair value adjustment at Weston Foods;

- a $0.18 per common share charge (2006 – $0.29 per common share charge) for the net effect of stock-based compensation and the associated equity derivatives;

- $0.24 per common share non-cash income (2006 – $0.38 per common share non-cash income) related to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares;

- $0.02 per common share income (2006 – $0.01 per common share income) related to the consolidation of VIEs; and

- $0.03 per common share non-cash income (2006 – nil) related to the Weston Foods curtailment of a post-retirement plan.

In addition to the items above, third quarter 2006 basic net earnings per common share included a $0.04 per common share charge related to a departure entitlement charge at Loblaw.

After adjusting for the above noted items, Weston's third quarter 2007 adjusted basic net earnings per common share(1) were $1.21 compared to $1.63 in 2006, a decrease of 25.8%.

The 2007 year-to-date basic net earnings per common share of $2.85 (2006 – $3.85 per common share) included the net negative impact of $0.52 per common share (2006 – $0.01 per common share net positive impact) as a result of the following factors:

- a $0.59 per common share charge (2006 – $0.16 per common share charge) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a $0.04 per common share charge (2006 – nil) related to the Loblaw inventory liquidation;
- $0.12 per common share non-cash income (2006 – $0.01 per common share non-cash charge) related to the commodity futures fair value adjustment at Weston Foods;
- a $0.22 per common share charge (2006 – $0.41 per common share charge) for the net effect of stock-based compensation and the associated equity derivatives;
- $0.17 per common share non-cash income (2006 – $0.49 per common share non-cash income) related to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares;
- $0.01 per common share income (2006 – nil) related to the consolidation of VIEs; and
- $0.03 per common share non-cash income (2006 – nil) related to the Weston Foods curtailment of a post-retirement plan.

In addition to the items above, year-to-date 2006 basic net earnings per common share included a $0.04 per common share charge related to a departure entitlement charge at Loblaw 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 year-to-date 2007 adjusted basic net earnings per common share(1) were $3.37 compared to $3.84 in 2006, a decrease of 12.2%.

REPORTABLE OPERATING SEGMENTS
Weston Foods

Adjusted Operating Income(1)

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
Operating income	**$ 128**	$ 69	**$ 317**	$ 189
Add (deduct) impact of the following:				
Restructuring and other charges	**9**	13	**2**	30
Commodity futures fair value adjustment	**(13)**	3	**(25)**	3
Net effect of stock-based compensation and the associated equity derivatives	**11**	21	**12**	28
Curtailment of post-retirement plan	**(7)**		**(7)**	
Adjusted operating income(1)	**$ 128**	$ 106	**$ 299**	$ 250

(1) See Non-GAAP Financial Measures on page 22.

Adjusted EBITDA(1)

($ millions)	16 Weeks Ended Oct. 6, 2007	16 Weeks Ended Oct. 7, 2006	40 Weeks Ended Oct. 6, 2007	40 Weeks Ended Oct. 7, 2006
Adjusted operating income(1)	**$ 128**	$ 106	**$ 299**	$ 250
Depreciation and amortization	**34**	35	**88**	89
Adjusted EBITDA(1)	**$ 162**	$ 141	**$ 387**	$ 339

Sales Weston Foods sales for the third quarter of 2007 of $1.3 billion decreased 2.8% compared to the same period in 2006, as a result of a sales increase of 1.5% offset by the negative impact of foreign currency translation on reported sales growth of approximately 4.3%. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 2.6% for the third quarter of 2007. Overall volume decreased 1.1% for the third quarter of 2007 and was negatively impacted by 0.4% due to the combined effect of the exit from the United States frozen foodservice bagel business during the third quarter of 2006 and the discontinuance of contract manufacturing of biscuits for certain customers during 2006. The remaining decline of 0.7% in the third quarter was largely the result of lower biscuit sales, partially offset by favourable timing of orders in frozen bakery.

On a year-to-date basis, sales of $3.4 billion were flat compared to 2006 partially due to the negative impact of foreign currency translation on reported year-to-date sales growth of approximately 1.7%. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 3.2% for year-to-date 2007. Overall volume decreased 1.5% for year-to-date 2007 and was negatively impacted by approximately 0.8% due to the combined effect of the exit from the United States frozen foodservice bagel business during the third quarter of 2006 and the discontinuance of contract manufacturing of biscuits for certain customers during 2006. The factors contributing to the remaining 0.7% decline were largely the same as those impacting the third quarter.

The following sales analysis excludes the impact of foreign currency translation.

Fresh bakery sales increased approximately 3.6% in the third quarter and 4.2% year-to-date compared to the same periods in 2006, driven by price increases in key product categories combined with changes in sales mix. For the third quarter and on a year-to-date basis for 2007, branded volume increases in the *Arnold* and *Thomas'* brands in the United States and *D'Italiano* brand in Canada were offset by volume declines in other categories particularly in food service and in private label products. Continued growth in whole grain products and the introduction of new and expanded products, such as *Thomas'* 100 Calorie English Muffins, *Thomas'* mini square bagels and product innovation in the *Wonder+* line contributed positively to branded sales growth during 2007.

Fresh-baked sweet goods sales, primarily sold under the *Entenmann's* brand, decreased approximately 2.0% in the third quarter and 0.9% year-to-date compared to the same periods in 2006 due to lower volumes for the quarter driven partially by less promotional activity. The volume decline was driven by softness in key categories that were partially offset by the introduction of new and expanded products, such as the *Entenmann's* 100 Calorie *Little Bites.*

Frozen bakery sales increased approximately 5.0% in the third quarter and 3.8% year-to-date compared to the same periods in 2006 driven mainly by higher volumes, price increases combined with changes in sales mix and timing of customer orders.

Dairy and bottled beverage sales increased approximately 4.7% in the third quarter and 3.5% year-to-date compared to the same periods in 2006 due to price increases, higher volumes and improvements in sales mix as growth continues to be experienced in a number of key categories.

(1) See Non-GAAP Financial Measures on page 22.

Biscuit sales, principally wafers, ice-cream cones, cookies and crackers, decreased approximately 19.3% in the third quarter and 12.9% year-to-date compared to the same periods in 2006. Sales decline in this category is due to significantly lower sales volume in certain categories, and the discontinuance of contract manufacturing of biscuits for certain customers during 2006.

Operating Income Weston Foods operating income increased by $59 million to $128 million in the third quarter of 2007 from $69 million in 2006. Operating margin for the third quarter of 2007 was 9.9% compared to 5.2% in the same period in 2006. Operating income was impacted by lower restructuring and other charges and net stock-based compensation costs. Restructuring and other charges in the third quarter of 2007 was a charge of $9 million (2006 – $13 million) and net stock-based compensation was a charge of $11 million (2006 – $21 million). In addition, non-cash income of $13 million (2006 – non-cash charge of $3 million) related to a commodity futures fair value adjustment and non-cash income of $7 million (2006 – nil) related to the curtailment of a post-retirement plan, was recorded in operating income in the third quarter of 2007. Adjusting for the impact of these items, adjusted operating income(1) was $128 million for the third quarter of 2007, an increase of 20.8% from $106 million in 2006. In addition, foreign currency translation negatively impacted third quarter 2007 adjusted operating income(1) growth by approximately 4.5%. Adjusted operating margin(1) and adjusted EBITDA margin(1) for the third quarter of 2007 were 9.9% and 12.5% (2006 – 7.9% and 10.5%), respectively.

On a year-to-date basis, Weston Foods operating income increased $128 million to $317 million from $189 million in 2006. Operating margin for 2007 was 9.4% compared to 5.6% in 2006. Operating income was impacted by lower restructuring and other charges and net stock-based compensation costs. Restructuring and other charges in 2007 was a charge of $2 million (2006 – $30 million) and net stock-based compensation was a charge of $12 million (2006 – $28 million). In addition, non-cash income of $25 million (2006 – non-cash charge of $3 million) related to a commodity futures fair value adjustment and non-cash income of $7 million (2006 – nil) related to the curtailment of a post-retirement plan, was recorded in operating income in 2007. Adjusting for the impact of these items, year-to-date adjusted operating income(1) was $299 million for 2007, an increase of 19.6% from $250 million in 2006. Foreign currency translation negatively impacted 2007 year-to-date adjusted operating income(1) growth by approximately 2%. Adjusted operating margin(1) and adjusted EBITDA margin(1) for 2007 were 8.9% and 11.5% (2006 – 7.4% and 10.1%), respectively.

Weston Foods is exposed to price fluctuations primarily as a result of anticipated purchases of certain raw materials, fuels and utilities. In accordance with the Company's risk management strategy, Weston Foods enters into commodity futures to reduce price fluctuations in a desired percentage of forecasted raw material purchases over a specified period of time. These commodity futures are not acquired for trading or speculative purposes. Weston Foods designates these futures as cash flow hedges of anticipated future commodity purchases when the criteria for hedge accounting is met. During the third quarter of 2007, Weston Foods recorded in operating income a non-cash gain of $13 million (2006 – non-cash charge of $3 million) and a $25 million non-cash gain (2006 – non-cash charge of $3 million) on a year-to-date basis related to the fair value adjustment of exchange traded futures that were not designated within a hedging relationship. While these futures did not qualify for hedge accounting under Canadian GAAP, they had the economic impact of largely mitigating the associated risks arising from price fluctuations in the underlying commodities.

During the third quarter of 2007, the amendment of a post-retirement benefit plan resulted in a significant reduction in the number of future years of service, thereby triggering a curtailment. Accordingly, a $7 million pro rata portion of the unamortized past service gain from a previous plan amendment was recognized as a non-cash curtailment gain in the third quarter and year-to-date 2007.

Adjusted operating income(1) and margin(1) for the third quarter of 2007 and on a year-to-date basis were positively impacted by price increases in key product categories combined with changes in sales mix towards higher margin products. Benefits realized from the continued focus on cost reduction initiatives, including the recent closure of facilities undertaken as part of certain restructuring activities, resulted in an improved cost structure. An emphasis on reducing product returns also had a favourable impact on adjusted operating income(1). While commodity prices are at historically high levels, Weston Foods has been able to implement pricing and other actions to mitigate the impact of these higher input costs.

(1) See Non-GAAP Financial Measures on page 22.

Weston Foods continues to evaluate strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Certain of these initiatives are in progress while others are still in the planning stages. Individual actions will be initiated and additional charges may be taken as plans are finalized and approved. The following items were recorded in the third quarter of 2007:

- During the third quarter of 2007, Weston Foods approved plans to restructure its Ontario frozen bakery distribution operations and to further restructure its Quebec fresh bakery distribution operations. These plans involve the closure and/or consolidation of certain warehouses and outsourcing certain warehousing and distribution functions to third-party warehousing service providers. These plans are expected to be completed in the first quarter of 2008. As a result of these restructuring plans, Weston Foods recorded a charge of $1 million related to employee termination benefits in the third quarter of 2007 and expects to record an additional $2 million related to other exit costs by the end of the first quarter of 2008.

- During the third quarter of 2007, Weston Foods also approved a plan to exit and transfer certain distribution and transportation activities in the mid-Western United States to third-party logistic providers. As a result of this restructuring plan, Weston Foods recorded a charge of $2 million related to employee termination benefits in the third quarter of 2007. Weston Foods expects to record approximately $1 million of additional facility related exit costs as part of this plan which is expected to be completed by the end of the second quarter of 2008.

- Weston Foods approved and completed a plan to transfer the manufacturing of two lines of certain private label English muffins in the United States to third-party producers or other Weston Foods manufacturing lines already in place in the third quarter of 2007. As a result of this decision, Weston Foods recognized $2 million of accelerated depreciation in the third quarter of 2007.

- Weston Foods approved plans to consolidate, relocate and restructure certain sales and administrative functions in the United States. As a result of this decision, Weston Foods recognized a charge of $2 million related to employee termination benefits and $1 million related to other exit costs in the third quarter of 2007. These plans are expected to be substantially completed by year end 2007.

In addition, the following items were recorded in 2007:

- During 2006, Weston Foods approved a plan to close an ice-cream cone baking facility in Los Angeles, California and this plan was completed in the first quarter of 2007. During the second quarter of 2007, Weston Foods completed the sale of this facility for proceeds of $11 million and recognized a gain on sale of fixed assets of $9 million.

- During 2006, Weston Foods approved a plan to close a frozen bagel plant in Nebraska, which was completed in that year. During the second quarter of 2007, Weston Foods completed the sale of this facility for proceeds of $1 million and recognized a loss on sale of fixed assets of $1 million.

- During 2006, Weston Foods approved a plan to restructure a portion of its distribution network in Quebec. As a result of this restructuring, Weston Foods recorded a charge of $1 million for other exit related costs during the second quarter of 2007.

- During the first quarter of 2007, Weston Foods approved a plan to exit certain bread and roll manufacturing lines in the Southeastern United States. All production associated with these lines will be transferred to third-party producers or other Weston Foods manufacturing facilities. As a result of this decision, Weston Foods recognized $4 million of accelerated depreciation and $1 million of employee termination benefits and other exit related costs in the first quarter of 2007.

- During 2005, Weston Foods approved a plan to restructure its United States biscuit operations. This plan included the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia by the end of 2006, with the majority of the production relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota. The sale and lease-back of the Elizabeth facility was completed in 2005 and a portion of the total resulting gain was deferred due to certain conditions relating to this sale lease-back transaction. All manufacturing activities ceased in the Elizabeth facility by the end of 2006. During the first quarter of 2007, Weston Foods vacated this facility in accordance with the terms and conditions of the sale lease-back arrangement and accordingly, recognized the previously deferred gain on sale of fixed assets of $6 million. In addition, Weston Foods recognized $2 million of other exit related costs in the first three quarters of 2007. By the end of the third quarter of 2007, total cumulative charges related to this restructuring plan since 2005 of $21 million of accelerated depreciation and $40 million of employee termination benefits and other exit related costs have been recognized.

Loblaw

Sales and Sales Growth Excluding the Impact of Tobacco Sales and VIEs(1)

	16 Weeks Ended		40 Weeks Ended	
($ millions except where otherwise indicated)	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
Total sales	**$ 9,137**	$ 9,010	**$ 22,417**	$ 21,856
Less: Sales attributable to tobacco sales	**341**	487	**794**	1,181
Sales attributable to the consolidation of VIEs	**133**	121	**348**	291
Sales excluding the impact of tobacco sales and VIEs(1)	**$ 8,663**	$ 8,402	**$ 21,275**	$ 20,384
Total sales growth	**1.4%**		**2.6%**	
Less: Impact on sales growth attributable to tobacco sales	**(1.8)%**		**(2.1)%**	
Impact on sales growth attributable to the consolidation of VIEs	**0.1%**		**0.3%**	
Sales growth excluding the impact of tobacco sales and VIEs(1)	**3.1%**		**4.4%**	

Adjusted Operating Income(1)

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
Operating income	**$ 248**	$ 396	**$ 596**	$ 978
Add (deduct) impact of the following:				
Restructuring and other charges	**24**	1	**186**	9
Departure entitlement charge		12		12
Inventory liquidation	**3**		**12**	
Net effect of stock-based compensation and the associated equity derivatives	**19**	31	**20**	43
VIEs	**(9)**	(8)	**(7)**	(8)
Adjusted operating income(1)	**$ 285**	$ 432	**$ 807**	$ 1,034

Adjusted EBITDA(1)

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
Adjusted operating income(1)	**$ 285**	$ 432	**$ 807**	$ 1,034
Add (deduct) impact of the following:				
Depreciation and amortization	**180**	184	**454**	457
VIEs depreciation and amortization	**(11)**	(7)	**(27)**	(19)
Adjusted EBITDA(1)	**$ 454**	$ 609	**$ 1,234**	$ 1,472

(1) See Non-GAAP Financial Measures on page 22.

Sales Sales for the third quarter increased by 1.4% or $127 million to $9.1 billion compared to the third quarter of 2006. Total sales increases were realized across all regions of the country. Sales in food and drugstore were strong in the quarter. A delayed launch of *Joe Fresh Style* children's apparel and intimates adversely affected general merchandise sales in the quarter. Same-store sales excluding the impact of the continued decrease in tobacco sales increased by 2.8%. Total sales excluding the impact of tobacco sales and VIEs(1) increased by 3.1%. In the third quarter of 2006, a major tobacco supplier commenced shipping directly to certain customers of Loblaw's cash & carry and wholesale club network, adversely impacting sales. This loss of sales will not affect comparisons to 2006 sales after the third quarter of this year.

For the third quarter of 2007, the following factors explain the major components in the change in sales over the prior year:

- same-store sales growth of 2.8% excluding the impact of decreased tobacco sales;
- continued sales growth in the *Real Canadian Superstore* banner in Ontario;
- national food price inflation as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI") was 2.2% for the third quarter of 2007 compared to approximately 2.5% in the same period of 2006. This measure of inflation does not necessarily reflect the effect of inflation on the specific mix of goods offered in Loblaw stores. Loblaw's analysis indicates that its internal retail food price inflation is approximately 0.5% and internal produce price deflation is estimated at 6.8% compared to last year;
- Loblaw is experiencing positive volume growth of 1.9% based on retail units sold; and
- an increase in net retail square footage of 0.2 million square feet or 0.4% during the latest four quarters, due to the opening of 34 new corporate and franchised stores and the closure of 75 stores, inclusive of 47 stores that were closed as part of a previously announced store operations restructuring plan, and stores that have undergone conversions and major expansions. During the third quarter of 2007, 10 new corporate and franchised stores were opened and 10 were closed resulting in a net increase of 0.3 million square feet or 0.5%.

For the first three quarters of the year, sales of $22.4 billion were 2.6% ahead of last year. Total sales excluding the impact of tobacco sales and VIEs(1) increased by 4.4% year-to-date. The following factors in addition to the quarterly factors mentioned above further explain the change in year-to-date sales over the same period in the prior year:

- same-store sales growth excluding the impact of decreased tobacco sales of 3.6%; and
- an increase in net retail square footage during the latest four quarters as noted above. In the first three quarters, 26 new corporate and franchised stores were opened and 71 stores closed, including 46 stores that were closed as part of a previously announced store operations restructuring plan, and stores which have undergone conversions and major expansions resulting in a net decrease of 0.1 million square feet or 0.3% from year end 2006.

Operating Income Operating income of $248 million for the third quarter of 2007 compares to $396 million in 2006, a decrease of 37.4%. Operating margin was 2.7% for the third quarter of 2007 compared to 4.4% in 2006.

Project Simplify continues to be executed throughout the business. In the third quarter of 2007, certain charges were recorded that reflected activities in support of Loblaw's Formula for Growth, which have previously been disclosed and are as follows:

- Part of Project Simplify involves the restructuring and streamlining of Loblaw's merchandising and store operations. This initiative includes a reduction of approximately 1,000 employees in the National Head Office and Store Support Centre and regional offices. The total restructuring costs under this plan, comprised primarily of severance costs, are now anticipated to be approximately $185 million which is within the previously disclosed range of $167 million to $187 million. In the third quarter of 2007, Loblaw recognized $23 million of restructuring costs resulting from this plan, comprised of $10 million for employee termination benefits including severance, additional pension costs resulting from the termination of employees and retention costs; and $13 million of other costs, primarily consulting. A substantial portion of the remaining expected cost in connection with this plan is anticipated to be recorded by the end of the fourth quarter of 2007.

(1) See Non-GAAP Financial Measures on page 22.

- A charge of $1 million was recorded in connection with the previously announced plan to restructure Loblaw's supply chain network.

($ millions)	Cost Recognized 2007 (16 weeks)	2006 (16 weeks)	2007 (40 weeks)	2006 (40 weeks)	Total Expected Costs	Total Expected Costs Remaining
Project Simplify	**$ 23**		**$ 168**		$ 185	$ 17
Store operations			**16**		54	3
Supply chain network	**1**	$ 1	**2**	$ 8	90	18
Office move and reorganization of the operation support functions				1	25	
Total restructuring and other charges	**$ 24**	$ 1	**$ 186**	$ 9	$ 354	$ 38

In the third quarter of 2007, Loblaw recognized the following in operating income:

- a charge of $19 million (2006 – $31 million) for the net effect of stock-based compensation and the associated equity forwards;
- a charge of $3 million, comprised primarily of storage and shipping costs from the previously announced liquidation of inventory determined to be excess in the fourth quarter of 2006. Loblaw's efforts to liquidate this inventory are proceeding as expected and will be complete in fourth quarter of 2007;
- income of $9 million (2006 – $8 million) resulting from the consolidation of VIEs; and
- nil (2006 − charge of $12 million) for a departure entitlement charge.

After adjusting for the above-noted items, adjusted operating income(1) was $285 million in the third quarter of 2007 compared to $432 million in the comparable period in 2006. Adjusted operating margin(1) was 3.3% in the third quarter of 2007 compared to 5.1% in 2006. Adjusted EBITDA margin(1) decreased to 5.2% from 7.2% in 2006.

In addition, the following items influenced adjusted operating income(1) for the third quarter of 2007:

- gross margin declined approximately $60 million from last year, representing 0.7% of sales, primarily due to targeted price reductions to provide value to customers and drive same-store sales and sales volumes, and changes in sales mix;
- incremental consulting costs compared to the prior year, other than those in connection with Project Simplify, amounted to $45 million including expenses related to new supply chain and information technology improvement initiatives of $8 million;
- legislative changes introduced in 2006 by the Ontario government reduced pharmacy-related operating income by $8 million; and
- adjustments in estimates related to post-employment and long term disability benefits and deferred product development and information technology costs reduced operating income by $24 million in the quarter.

Aggregate gross margin percentage continued to decline in the third quarter of 2007 as a result of Loblaw's continued investment in lower prices, as part of its Credit for Value initiative, to drive same-store sales growth in a targeted manner across the country. Sales increases in the quarter were insufficient to offset margin declines and cost increases. Loblaw continues to experience higher store operating costs including store labour costs compared to the third quarter of 2006.

Operating income for the first three quarters of 2007 decreased by $382 million, or 39.1%, to $596 million, and resulted in an operating margin of 2.7% as compared to 4.5% in the corresponding period in 2006. During the first three quarters of 2007, Loblaw recorded restructuring and other charges of $186 million (2006 – $9 million) of which $168 million (2006 – nil) related to Project Simplify, $16 million (2006 – nil) related to the store operations restructuring, and $2 million (2006 – $8 million) related to the supply chain network, and no impact (2006 – $1 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 $20 million (2006 – $43 million) for the net effect

(1) See Non-GAAP Financial Measures on page 22.

of stock-based compensation and the associated equity forwards; $12 million (2006 – nil) relating to the liquidation of inventory determined to be excess in the fourth quarter of 2006; income of $7 million (2006 – $8 million) from the consolidation of VIEs and nil (2006 – $12 million) for a departure entitlement charge.

Adjusted operating income[(1)] for the first three quarters of 2007 was $807 million compared to $1,034 million for the same period of 2006. Year-to-date adjusted operating margin[(1)] was 3.8% compared to 5.1% in 2006. Adjusted EBITDA margin[(1)] decreased to 5.8% from 7.2% in 2006.

The 2007 year-to-date results were also influenced by the additional following items:

- incremental consulting costs compared to the prior year, other than those in connection with Project Simplify, amounted to $63 million including expenses related to new supply chain and information technology improvement initiatives of $10 million;
- pharmacy-related operating income was reduced by $25 million due to legislative changes introduced in 2006 by the Ontario government;
- adjustments in estimates related to post-employment and long term disability benefits and deferred product and information technology costs reduced operating income by $24 million;
- costs associated with the change in Loblaw's executive bonus plan were $11 million; and
- the aggregate gross margin percentage decreased as described previously.

In the second quarter of 2007, Loblaw completed its work in connection with the non-cash goodwill impairment charge and finalized the $800 million recorded in the Company's audited annual consolidated financial statements for the year ended December 31, 2006.

CONSOLIDATED FINANCIAL CONDITION

Financial Ratios The Company's net debt (excluding the Exchangeable Debentures)[(1)] to equity ratio at the end of the third quarter of 2007 was 1.04:1 compared to 0.98:1 in the same period of 2006 and 0.96:1 at year end 2006. The change in this ratio from year end 2006 is primarily due to lower shareholders' equity as a result of the impact of translation of the Company's United States net investment due to the appreciation of the Canadian dollar relative to the United States dollar. The change in this ratio at the end of the third quarter of 2007 when compared to the end of the third quarter in 2006 was mainly due to lower shareholders' equity, including the negative impact of the $800 million non-cash Loblaw goodwill impairment charge recorded in the fourth quarter of 2006 as well as the impact of translation of the Company's United States net investment due to the appreciation of the Canadian dollar relative to the United States dollar. These factors were partially offset by lower net debt (excluding the Exchangeable Debentures)[(1)].

The interest coverage ratio for the third quarter of 2007 decreased to 6.8 times compared to 12.9 times in the third quarter of 2006 and on a year-to-date basis decreased to 4.2 times in 2007 compared to 6.5 times in 2006 primarily due to lower operating income and higher interest expense and other financing charges resulting from the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares.

The Company's rolling year return on average total assets[(1)] at the end of the third quarter of 2007 was 1.7% compared to 9.5% in the comparable period of 2006 and 3.2% at year end 2006. The Company's rolling year return on average common shareholders' equity was (1.8)% at the end of the third quarter of 2007 compared to 16.9% in the comparable period of 2006 and 1.3% for the year end 2006 return. Both ratios continue to be negatively impacted by the decline in cumulative operating income for the latest four quarters including the negative impact of the $800 million non-cash Loblaw goodwill impairment charge recorded in the fourth quarter of 2006.

Dividends On October 1, 2007, common share dividends of $0.36 per share and preferred share dividends of $0.32 per share, Series II, Series III and Series IV and preferred share dividends of $0.30 per share, Series V were paid as declared by Weston's Board of Directors. On September 15, 2007, preferred share dividends of $0.36 per share, Series I were paid as declared by the Board. The 2007 quarterly common share dividend was maintained at the 2006 dividend rate.

(1) See Non-GAAP Financial Measures on page 22.

Outstanding Share Capital Weston's outstanding share capital is comprised of common shares and preferred shares. An unlimited number of common shares are authorized and 129.1 million common shares were outstanding at the end of the third quarter of 2007. 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 third quarter of 2007.

During the second quarter of 2007, Weston renewed its Normal Course Issuer Bid to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 6,453,726 of its common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, Weston may purchase its shares at the then market prices of such shares. Weston has not purchased any shares under its Normal Course Issuer Bid during 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities of Continuing Operations Third quarter 2007 cash flows from operating activities of continuing operations were $641 million compared to $499 million in the comparable period of 2006. On a year-to-date basis, cash flows from operating activities of continuing operations were $1,071 million compared to $563 million in 2006. The improvement in cash flows from operating activities of continuing operations for the third quarter and year-to-date is mainly due to the change in non-cash working capital by Loblaw. The change in inventory in the first three quarters of 2007 compared to the same periods in 2006 accounted for the majority of the change in non-cash working capital.

Cash Flows used in Investing Activities of Continuing Operations Third quarter 2007 cash flows used in investing activities of continuing operations were $398 million compared to $357 million in 2006. On a year-to-date basis, cash flows used in investing activities of continuing operations were $596 million compared to $1,332 million in 2006. The majority of the change in cash flows used in investing activities of continuing operations was the result of a decline in capital investment in addition to less movement in short term investments from cash and cash equivalents relative to year end, when compared to the prior year, due to the change in the maturity profile of the Company's short term investments.

Capital investment for the third quarter of 2007 totaled $247 million (2006 – $372 million) and $516 million (2006 – $814 million) year-to-date as the Company continues its commitment to maintain and renew its asset base and invest for growth within North America albeit at a slower pace than in prior years.

During the third quarter of 2007, $100 million (2006 – $125 million) of credit card receivables were securitized and $225 million (2006 – $240 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 independent trusts, yielding a nominal net loss (2006 – nominal net loss) based on the assumptions disclosed in note 13 to the consolidated financial statements for the year ended December 31, 2006 included in Weston's 2006 Financial Report. The independent trusts' 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% (2006 – 9%) on a portion of the securitized amount.

Cash Flows (used in) from Financing Activities of Continuing Operations Third quarter 2007 cash flows used in financing activities of continuing operations were $171 million compared to $67 million in 2006. On a year-to-date basis, cash flows used in financing activities of continuing operations were $314 million compared to cash flows from financing activities of continuing operations of $321 million in 2006. The change in cash flows used in financing activities of continuing operations was primarily due to a decline in commercial paper levels partially offset by an increase in short term debt at Loblaw.

During the second quarter of 2007, Dominion Bond Rating Service ("DBRS") downgraded Weston's Medium Term Notes and debentures to "BBB (high)" from "A (low)", the Exchangeable Debenture to "BBB" from "BBB (high)" and preferred shares to "Pfd-3 (high)" from "Pfd-2 (low)" and changed the outlook to "stable". In addition, DBRS confirmed Weston's commercial paper rating at "R-1 (low)" with a "negative" trend. Also during the second quarter of 2007, Weston's long term corporate credit, commercial paper and preferred share ratings were downgraded by

Standard & Poor's ("S&P") to "BBB" from "BBB+", to "A-2" from "A-1 (low)" and to "P-3 (high)" from "P-2 (low)", respectively. Weston was removed from CreditWatch with negative implications and the outlook was changed to "stable".

During the second quarter of 2007, DBRS downgraded Loblaw's Medium Term Notes and debentures to "A (low)" from "A" and confirmed Loblaw's commercial paper rating at "R-1 (low)", both with a "negative" trend. Also, during the second quarter, S&P downgraded Loblaw's long term corporate credit to "BBB+" from "A-" and confirmed Loblaw's commercial paper rating at "A-1 (low)". S&P removed Loblaw from CreditWatch with negative implications and the outlook was changed to "stable".

In the first quarter of 2007, Loblaw entered into a 364-day revolving committed credit facility of $500 million, extended by several banks for general corporate purposes, which matures in March 2008. At the end of the third quarter, $296 million was drawn on this facility. In addition, Weston's $300 million 364-day revolving committed credit facility extended by several banks will expire in May 2008. At the end of the third quarter, $144 million was drawn on this facility. Neither credit facility has financial covenants and borrowings are based on short term floating interest rates.

During the third quarter of 2007, the Company reduced its use of commercial paper due to global credit market conditions, however, by the end of the quarter, the commercial paper market conditions for the Company had improved. The Company continues to draw on committed and uncommitted facilities marginally increasing its cost of financing.

Further downgrades in Weston's and Loblaw's short term credit ratings would impact Weston's and Loblaw's ability to access short term financing through their commercial paper programs which would increase borrowing costs. However, Weston and Loblaw anticipate to continue to be able to obtain external financing.

In the event of a further downgrade of Loblaw's long term credit rating issued by DBRS and a possible termination of the independent funding trust agreement, Loblaw's franchisees' access to financing through the structure involving independent funding trusts would be affected and the standby letter of credit in the amount of $44 million provided to the independent funding trust by Loblaw would be drawn upon. The principal amount of the franchisee loans outstanding at the end of the third quarter of 2007 was $418 million. Loblaw is exploring alternative financing arrangements for the benefit of its franchisees to address this issue. In the event Loblaw restructures the independent funding trusts, any new alternative financing structure which may be implemented would need to be reviewed to determine if there are any implications with respect to the consolidation of VIEs.

On March 7, 2007, pursuant to a transaction whereby Domtar Inc. ("Domtar") was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either exchangeable shares of Domtar (Canada) Paper Inc. or common shares of Domtar Corporation ("New Domtar"), a Delaware Corporation. The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares. Weston's 3% Exchangeable Debentures ("Debentures") entitle the holders to exchange their Debentures for common shares of New Domtar on the basis of 95.2381 common shares of New Domtar for each one thousand dollar principal amount of Debentures. Weston's obligation on the exchange or redemption of these Debentures can be satisfied by delivery of a cash amount equivalent to the current market price of the common shares of New Domtar at such time, the common shares of New Domtar or any combination thereof.

Free Cash Flow(1) Free cash flow(1) for the third quarter of 2007 was $232 million compared to negative $35 million in the third quarter of 2006 and on a year-to-date basis was $227 million compared to negative $552 million in 2006. The third quarter and year-to-date improvements are primarily due to increased cash flows from working capital and a reduction in capital expenditures.

(1) See Non-GAAP Financial Measures on page 22.

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 is 12 weeks in duration except for the third quarter, which is 16 weeks in duration.

Quarterly Financial Information (unaudited)

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
($ millions except where otherwise indicated)	**2007**	2006	2007	2006	2007	2006	2006	2005
Sales	**$10,163**	$10,085	$ 7,739	$ 7,507	$ 7,221	$ 6,997	$ 7,578	$7,345
Net earnings (loss) from continuing operations	**$ 179**	$ 226	$ 129	$ 184	$ 104	$ 128	$ (428)	$ 240
Net earnings (loss)	**$ 179**	$ 226	$ 129	$ 184	$ 104	$ 128	$ (417)	$ 249
Net earnings (loss) per common share from continuing operations ($)								
Basic	**$ 1.25**	$ 1.62	$ 0.90	$ 1.32	$ 0.70	$ 0.91	$ (3.42)	$ 1.78
Diluted	**$ 1.25**	$ 1.62	$ 0.90	$ 1.32	$ 0.70	$ 0.91	$ (3.42)	$ 1.78
Net earnings (loss) per common share ($)								
Basic	**$ 1.25**	$ 1.62	$ 0.90	$ 1.32	$ 0.70	$ 0.91	$ (3.33)	$ 1.85
Diluted	**$ 1.25**	$ 1.62	$ 0.90	$ 1.32	$ 0.70	$ 0.91	$ (3.33)	$ 1.85

Sales growth continued in the third quarter of 2007 compared to 2006. At Loblaw, same-store sales growth during the current quarter increased 1.6% including the negative impact from the decline in tobacco sales. Loblaw sales and same-store sales growth during the last two quarters of 2006 and the first three quarters of 2007 were negatively impacted by the loss in tobacco sales. At Weston Foods, quarterly sales growth was positively impacted by pricing combined with changes in sales mix. Weston Foods quarterly sales growth was also impacted by foreign currency translation. Weston Foods sales growth for the last quarter of 2006 and first three quarters of 2007 was also negatively impacted by the exit from the United States frozen foodservice bagel business during the third quarter of 2006 and the discontinuance of contract manufacturing of biscuits for certain customers during 2006.

Quarterly net earnings for the last eight quarters were impacted by the following items:

- restructuring and other charges incurred by Weston Foods and Loblaw;
- fluctuations in stock-based compensation net of the impact of the associated equity derivatives as a result of changes in the market price of Weston's and Loblaw's common shares;
- a non-cash Loblaw goodwill impairment charge;
- Loblaw's charge related to its Ontario collective labour agreement;
- Loblaw's charge related to inventory liquidation;
- a departure entitlement payment at Loblaw;
- commodity futures fair value adjustment at Weston Foods;
- accounting for Weston's 2001 forward sale agreement of 9.6 million Loblaw common shares; and
- the curtailment of a post-retirement plan at Weston Foods.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management of Loblaw has concluded that, as of October 6, 2007, a weakness existed in the design of its internal control over financial reporting in the area of inventory controls, principally related to Loblaw's general merchandise inventory valuation. This design weakness was caused primarily by the lack of sufficient compensating controls in the absence of a perpetual inventory system. This weakness has existed since the end of the first quarter of 2007.

While it is possible that this design weakness, if left unaddressed, could result in a material misstatement of the Company's inventory balances now or in the future, management has concluded that the consolidated financial statements included in this quarterly report fairly present the Company's financial position, consolidated results of operations and cash flows for the sixteen and forty weeks ended October 6, 2007. Management has reached this conclusion based on the aggregate effect of a number of factors including the performance of a significant number of inventory counts at Loblaw stores during the first three quarters of 2007, and further substantive procedures performed by Loblaw management to validate the recorded value of inventory using its current method of estimating cost.

Loblaw has made progress in remediating this design weakness by developing a sustainable control framework for inventory valuation and a detailed control implementation plan, including conducting inventory counts required to reach a level at which Loblaw can be confident of the statistical validity of extrapolating the results of those counts. In addition, Loblaw has developed and is implementing revised policies and procedures for identifying excess inventory. Loblaw is in the process of implementing a perpetual inventory system and is exploring the role such a system might have in Loblaw's valuation of its inventories.

There has been no change in the Company's internal control over financial reporting that occurred during the sixteen weeks ended October 6, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

LEGAL PROCEEDINGS

During the first quarter of 2007, Weston and Loblaw were two of 17 defendants served with an action brought in the Superior Court of Ontario by certain beneficiaries of a multi-employer pension plan in which employees of Loblaw and those of its independent franchisees participate. In their claim against the employers and the trustees of the multi-employer pension plan, the plaintiffs claim that assets of the multi-employer pension plan have been mismanaged and are seeking, among other demands, damages of $1 billion. The action is framed as a representative action on behalf of all beneficiaries of the multi-employer pension plan. The Company has recently received notice from counsel for the plaintiffs indicating that he has received instructions from his client to discontinue the action against the employers including the Company. The action against the trustees is ongoing and one of the trustees, an officer of Loblaw, may be entitled to indemnification from Loblaw.

On March 7, 2007, pursuant to a transaction whereby Domtar was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either exchangeable shares of Domtar (Canada) Paper Inc. or common shares of Domtar Corporation, a Delaware Corporation. The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares.

A Share Purchase Agreement governing the June 1998 sale by Weston of E.B. Eddy Paper, Inc. to Domtar (the "SPA") contains a price adjustment clause. The SPA provides, subject to certain limited exceptions, that if any person subsequently acquired more than 50% of the outstanding voting shares of Domtar, the price adjustment clause applies. Weston believes that a price adjustment in the amount of $110 million is payable and Weston has demanded payment of such amount from Domtar. Domtar's position is that the purchase price adjustment does not apply because of the application of an exception contained in the SPA. Weston has commenced an action against Domtar for $110 million on the basis that the consummation of its transaction with Weyerhaeuser Inc. triggered the purchase price adjustment under the SPA. The parties have exchanged legal pleadings.

In addition to the claims described above, the Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings is uncertain. However, based on information currently available, these claims, individually and in the aggregate, are not expected to have a material impact on the Company.

ACCOUNTING STANDARDS IMPLEMENTED IN 2007

On January 1, 2007, the Company implemented the Canadian Institute of Chartered Accountants ("CICA") new Handbook sections 3855 "Financial Instruments - Recognition and Measurement", 3865 "Hedges", 1530 "Comprehensive Income", 3251 "Equity", and 3861 "Financial Instruments - Disclosure and Presentation". The transitional adjustments resulting from these standards are recognized in the opening balance of retained earnings and opening accumulated other comprehensive loss. Prior periods have not been restated except to reclassify unrealized foreign currency translation losses on net investments in self-sustaining foreign operations to accumulated other comprehensive loss.

The new accounting standards require that all financial instruments be classified into a defined category, namely, held-for-trading financial assets or financial liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. The financial instruments within scope, including derivatives, are included on the Company's balance sheet and measured at fair value except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at cost or amortized cost except for the Domtar Exchangeable Debentures as more fully discussed in note 2 of the unaudited interim period consolidated financial statements. Held-for-trading financial assets and financial liabilities are measured at fair value with gains and losses recognized in net earnings in the period in which they arise. Available-for-sale financial assets are measured at fair value, with unrealized gains and losses, including changes in foreign exchange rates, recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time any unrealized gains or losses are recorded in net earnings. In cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings.

Upon implementation of these standards, the Company has recorded the following transitional adjustments:

($ millions)	Balance as Reported, Dec. 31, 2006	Transitional Adjustments	Opening Balance Jan. 1, 2007
Other assets	$ 1,459	$ (101)	$ 1,358
Accounts payable and accrued liabilities	$ 3,196	$ 1	$ 3,197
Long term debt	$ 5,918	$ (11)	$ 5,907
Future income taxes	$ 366	$ (41)	$ 325
Other liabilities	$ 668	$ 41	$ 709
Retained earnings	$ 4,506	$ (100)	$ 4,406
Accumulated other comprehensive loss	$ (503)	$ 9	$ (494)

For further details of the specific accounting changes and related impacts, see note 2 of the unaudited interim period consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

Capital Disclosures and Financial Instruments - Disclosure and Presentation

In December 2006, the CICA issued three new accounting standards: Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments Disclosure" and Section 3863 "Financial Instruments Presentation".

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosures with respect to the objectives, policies and processes for managing capital and quantitative disclosure about what a company regards as capital are required.

Section 3862 and Section 3863 replace Section 3861 "Financial Instruments - Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

These standards are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will implement them in the first quarter of 2008.

Inventories

In June 2007, the CICA issued a new Section 3031 "Inventories", which will replace existing Section 3030 of the same title. The new standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value with more specific guidance of costs to include in the cost of inventory. Costs such as storage costs and administrative overhead that do not contribute to bringing inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. This standard is effective for fiscal years beginning on or after January 1, 2008 and will be implemented by the Company in the first quarter of 2008 to the opening inventory for the period with an adjustment to opening retained earnings, net of income taxes and applicable minority interest, for the difference in measurement of the opening inventory with no prior periods restated. The Company is currently assessing the implications of the new requirements and expects to record an adjustment upon implementation of this standard. Based on a preliminary analysis to date using inventory on hand at the third quarter of 2007, Loblaw expects to record, upon implementation of this standard, a decrease in the measurement of its opening inventory of less than 4% of its inventory value resulting in a corresponding decrease to opening retained earnings of less than $31 million net of income taxes and minority interest on the consolidated balance sheet. The impact of the Weston Foods adjustment to inventory and retained earnings is not expected to be material to the consolidated balance sheet.

For further details on the above future accounting standards see note 1 to the unaudited interim period consolidated financial statements.

OUTLOOK

The consolidated results of George Weston Limited for 2007 will continue to reflect the changes undertaken by both the Weston Foods and Loblaw operating businesses in order to position them for strong growth in the future.

For the remainder of the year, Weston Foods expects sales growth to be constrained by any further appreciation of the Canadian dollar. Adjusted operating margin is expected to be consistent with that experienced on a year-to-date basis.

This quarter Loblaw was heavily affected by the costs of implementing its initiatives for the future including the continued investment in pricing. The Loblaw team is settling into their new functions and responsibilities. Loblaw's core initiatives are on track and Loblaw is satisfied with progress so far, but the three to five year turnaround effort will inevitably have bumps along the way. In the fourth quarter, solid sales volume growth but continued reduced margins are expected. Results in the first half of next year may be affected by more difficult comparables. Loblaw's longer term focus will be on increasing sales momentum and cost reduction to improve margins over time.

ADDITIONAL INFORMATION

Additional information about the Company has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

This Quarterly Report includes selected information on Loblaw Companies Limited, a 62%-owned public reporting company with shares trading on the Toronto Stock Exchange. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw with the Canadian securities regulatory authorities from time to time. These filings are also maintained at Loblaw's corporate website at www.loblaw.ca.

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. 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 Tobacco Sales and VIEs These financial measures exclude the impact on sales from the decrease in tobacco sales and from the consolidation by Loblaw of certain independent franchisees which resulted from the implementation of AcG 15. Tobacco sales continue to decrease as a result of a major tobacco supplier shipping directly to certain customers of Loblaw's cash & carry and wholesale club network commencing in the third quarter of 2006. These impacts on sales are excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. 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 Tobacco Sales and VIEs" included on pages 4 and 12 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, these excluded items 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 4, 8 and 12 of this MD&A.

Adjusted operating margin is calculated as adjusted operating income divided by sales excluding the impact of tobacco sales and 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 5, 9 and 12 of this MD&A.

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

Adjusted Basic Net Earnings per Common Share 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, the excluded items 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 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" included on page 5 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. The net debt to equity ratio 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 by using the Company's investment in Domtar (Canada) Paper Inc., included in other assets.

($ millions)	Oct. 6, 2007	Oct. 7, 2006
Bank indebtedness	$ 131	$ 133
Commercial paper	320	1,010
Short term bank loans	677	167
Long term debt due within one year	432	230
Long term debt	5,507	5,915
Less:		
Cash and cash equivalents	1,195	1,057
Short term investments	658	691
Net debt	5,214	5,707
Less: Exchangeable Debentures	165	220
Net debt excluding Exchangeable Debentures	$ 5,049	$ 5,487

Free Cash Flow The following table reconciles free cash flow to Canadian GAAP measures reported in the unaudited interim period consolidated cash flow statements as indicated. The Company calculates free cash flow as cash flows from operating activities of continuing operations less fixed asset purchases and dividends. The Company believes free cash flow is a useful measure of the change in the Company's cash available for additional funding requirements.

	16 Weeks Ended		40 Weeks Ended	
($ millions)	Oct. 6, 2007	Oct. 7, 2006	Oct. 6, 2007	Oct. 7, 2006
Cash flows from operating activities of continuing operations	$ 641	$ 499	$ 1,071	$ 563
Less:				
Fixed asset purchases	247	372	516	814
Dividends	162	162	328	301
Free cash flow	$ 232	$ (35)	$ 227	$ (552)

Total Assets The following table reconciles total assets used in the return on average total assets 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 of discontinued operations, and the Domtar (Canada) Paper Inc. investment from the total assets used in this ratio.

($ millions)	Oct. 6, 2007	Oct. 7, 2006
Total assets	$ 17,938	$ 19,182
Less:		
Cash and cash equivalents	1,195	1,057
Short term investments	658	691
Long term assets of discontinued operations		4
Domtar (Canada) Paper Inc. investment	166	215
Total assets	$ 15,919	$ 17,215

Consolidated Statements of Earnings
(unaudited)

($ millions except where otherwise indicated)	16 Weeks Ended Oct. 6, 2007	16 Weeks Ended Oct. 7, 2006	40 Weeks Ended Oct. 6, 2007	40 Weeks Ended Oct. 7, 2006
Sales	**$ 10,163**	$ 10,085	**$ 25,123**	$ 24,589
Operating Expenses				
Cost of sales, selling and administrative expenses	**9,540**	9,387	**23,480**	22,837
Depreciation and amortization	**214**	219	**542**	546
Restructuring and other charges (note 3)	**33**	14	**188**	39
	9,787	9,620	**24,210**	23,422
Operating Income	**376**	465	**913**	1,167
Interest Expense and Other Financing Charges (note 4)	**49**	30	**203**	163
Earnings Before the Following:	**327**	435	**710**	1,004
Income Taxes (note 5)	**101**	127	**190**	259
	226	308	**520**	745
Minority Interest	**47**	82	**108**	207
Net Earnings	**$ 179**	$ 226	**$ 412**	$ 538
Net Earnings per Common Share ($) – Basic and Diluted (note 6)	**$ 1.25**	$ 1.62	**$ 2.85**	$ 3.85

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

Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

($ millions except where otherwise indicated)	40 Weeks Ended Oct. 6, 2007	40 Weeks Ended Oct. 7, 2006
Share Capital		
Preferred Shares	**$ 1,077**	$ 1,077
Common Shares	**133**	131
Total Share Capital, Beginning and End of Period	**$ 1,210**	$ 1,208
Retained Earnings, Beginning of Period	**$ 4,506**	$ 4,625
Cumulative impact of implementing new accounting standards (note 2)	**(100)**	
Net earnings	**412**	538
Dividends declared		
Per common share ($) – $1.08 (2006 – $1.08)	**(139)**	(139)
Per preferred share ($) – Series I – $1.09 (2006 – $1.09)	**(10)**	(10)
– Series II – $0.97 (2006 – $0.97)	**(10)**	(10)
– Series III – $0.97 (2006 – $0.97)	**(8)**	(8)
– Series IV – $0.97 (2006 – $0.97)	**(7)**	(7)
– Series V – $0.89 (2006 – $0.54)	**(7)**	(4)
Retained Earnings, End of Period	**$ 4,637**	$ 4,985
Accumulated Other Comprehensive Loss, Beginning of Period (note 2)	**$ (503)**	$ (518)
Cumulative impact of implementing new accounting standards (note 2)	**9**	
Other comprehensive loss	**(514)**	(92)
Accumulated Other Comprehensive Loss, End of Period (note 13)	**$ (1,008)**	$ (610)
Total Shareholders' Equity	**$ 4,839**	$ 5,583

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

Consolidated Statements of Comprehensive (Loss) Income
(unaudited)

($ millions)	16 Weeks Ended Oct. 6, 2007	16 Weeks Ended Oct. 7, 2006	40 Weeks Ended Oct. 6, 2007	40 Weeks Ended Oct. 7, 2006
Net earnings	**$ 179**	$ 226	**$ 412**	$ 538
Other comprehensive (loss) income, net of income taxes and minority interest				
Foreign currency translation adjustment	**(245)**	6	**(512)**	(92)
Net unrealized loss on available-for-sale financial assets	**(20)**		**(38)**	
Reclassification of loss on available-for-sale financial assets to net earnings	**17**		**9**	
	(3)		**(29)**	
Net gain on derivatives designated as cash flow hedges	**18**		**34**	
Reclassification of gain on derivatives designated as cash flow hedges to net earnings	**(15)**		**(7)**	
	3		**27**	
Other comprehensive (loss) income	**(245)**	6	**(514)**	(92)
Total Comprehensive (Loss) Income	**$ (66)**	$ 232	**$ (102)**	$ 446

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

Consolidated Balance Sheets

($ millions)	Oct. 6, 2007 (unaudited)	As at Oct. 7, 2006 (unaudited)	Dec. 31, 2006
ASSETS			
Current Assets			
Cash and cash equivalents	**$ 1,195**	$ 1,057	$ 1,219
Short term investments	**658**	691	610
Accounts receivable (note 7)	**935**	901	1,007
Inventories	**2,037**	2,291	2,187
Income taxes (note 5)	**51**	76	80
Future income taxes	**135**	110	151
Prepaid expenses and other assets	**82**	98	59
Total Current Assets	**5,093**	5,224	5,313
Fixed Assets	**9,083**	9,113	9,219
Goodwill and Intangible Assets (note 8)	**2,302**	3,319	2,536
Future Income Taxes	**48**	80	68
Other Assets	**1,412**	1,442	1,459
Long Term Assets of Discontinued Operations		4	
Total Assets	**$ 17,938**	$ 19,182	$ 18,595
LIABILITIES			
Current Liabilities			
Bank indebtedness	**$ 131**	$ 133	$ 99
Commercial paper	**320**	1,010	838
Accounts payable and accrued liabilities	**2,870**	2,697	3,196
Short term bank loans (note 10)	**677**	167	178
Long term debt due within one year	**432**	230	27
Current liabilities of discontinued operations	**3**	9	4
Total Current Liabilities	**4,433**	4,246	4,342
Long Term Debt (note 11)	**5,507**	5,915	5,918
Future Income Taxes	**317**	382	366
Other Liabilities	**715**	660	668
Minority Interest	**2,127**	2,396	2,088
Total Liabilities	**13,099**	13,599	13,382
SHAREHOLDERS' EQUITY			
Share Capital (note 12)	**1,210**	1,208	1,210
Retained Earnings	**4,637**	4,985	4,506
Accumulated Other Comprehensive Loss (notes 2 and 13)	**(1,008)**	(610)	(503)
Total Shareholders' Equity	**4,839**	5,583	5,213
Total Liabilities and Shareholders' Equity	**$ 17,938**	$ 19,182	$ 18,595

Contingencies, commitments and guarantees (note 15).

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

Consolidated Cash Flow Statements
(unaudited)

($ millions)	16 Weeks Ended Oct. 6, 2007	16 Weeks Ended Oct. 7, 2006	40 Weeks Ended Oct. 6, 2007	40 Weeks Ended Oct. 7, 2006
Operating Activities				
Net earnings before minority interest	**$ 225**	$ 308	**$ 519**	$ 745
Depreciation and amortization	**214**	219	**542**	546
Restructuring and other charges (note 3)	**33**	14	**188**	39
Future income taxes	**24**	58	**8**	65
Fair value adjustment of Weston's forward sale agreement (note 4)	**(44)**	(69)	**(31)**	(90)
Change in non-cash working capital	**142**	(67)	**(244)**	(795)
Other	**47**	36	**89**	53
Cash Flows from Operating Activities of Continuing Operations	**641**	499	**1,071**	563
Investing Activities				
Fixed asset purchases	**(247)**	(372)	**(516)**	(814)
Short term investments	**(145)**	(85)	**(163)**	(658)
Proceeds from fixed asset sales	**35**	84	**69**	97
Credit card receivables, after securitization (note 7)	**(47)**	32	**45**	84
Franchise investments and other receivables	**14**	(4)	**13**	(8)
Other	**(8)**	(12)	**(44)**	(33)
Cash Flows used in Investing Activities of Continuing Operations	**(398)**	(357)	**(596)**	(1,332)
Financing Activities				
Bank indebtedness	**(56)**	(58)	**38**	21
Commercial paper	**(424)**	145	**(518)**	512
Short term bank loans - Issued (note 10)	**479**	10	**499**	29
Long term debt - Issued	**2**	14	**25**	18
- Retired	**(10)**	(16)	**(30)**	(154)
Share Capital - Issued				194
Dividends - To common shareholders	**(93)**	(93)	**(186)**	(186)
- To preferred shareholders	**(25)**	(25)	**(54)**	(49)
- To minority shareholders	**(44)**	(44)	**(88)**	(66)
Other				2
Cash Flows (used in) from Financing Activities of Continuing Operations	**(171)**	(67)	**(314)**	321
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents	**(83)**	(1)	**(184)**	(35)
Cash Flows (used in) from Continuing Operations	**(11)**	74	**(23)**	(483)
Cash Flows used in Discontinued Operations		(1)	**(1)**	
Change in Cash and Cash Equivalents	**(11)**	73	**(24)**	(483)
Cash and Cash Equivalents, Beginning of Period	**1,206**	984	**1,219**	1,540
Cash and Cash Equivalents, End of Period	**$ 1,195**	$ 1,057	**$ 1,195**	$ 1,057

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, 2006, 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 2006 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 third quarter of 2007 and at year end 2006. 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 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 and 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.

Future Accounting Standards

Capital Disclosures and Financial Instruments - Disclosure and Presentation

In December 2006, the Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments Disclosure" and Section 3863 "Financial Instruments Presentation".

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. The standard requires enhanced disclosures with respect to (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.

Section 3862 and Section 3863 replace section 3861 "Financial Instruments - Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

These standards are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will implement them in the first quarter of 2008.

Inventories

The new Section 3031, "Inventories", was issued in June 2007 and will replace existing Section 3030 of the same title. The new standard provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value with more specific guidance of costs to include in the cost of inventory. Costs such as storage costs and administrative overhead that do not contribute to bringing inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method or standard cost method, may be used for convenience if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

This standard is effective for fiscal years beginning on or after January 1, 2008 and the Company will be implementing the standard in the first quarter of 2008 to the opening inventory for the period with an adjustment to opening retained earnings, net of income taxes and applicable minority interest, for the difference in measurement of the opening inventory with no prior periods restated. The Company is currently assessing the implications of the new requirements. As a result, based on a preliminary analysis to date using inventory on hand at the third quarter of 2007, Loblaw expects to record, upon implementation of this standard, a decrease in the measurement of its opening inventory of less than 4% of its inventory value resulting in a corresponding decrease to opening retained earnings of less than $31 million net of income taxes and minority interest on the consolidated balance sheet. The impact of the Weston Foods adjustment to inventory and retained earnings is not expected to be material to the consolidated balance sheet.

In addition to the changes in the cost of inventory, the Company is reviewing the additional presentation and disclosure requirements which will be required in the consolidated financial statements and/or in the accompanying notes.

2. Accounting Standards Implemented in 2007

On January 1, 2007, the Company implemented the CICA new Handbook sections 3855 “Financial Instruments - Recognition and Measurement”, 3865 “Hedges”, 1530 “Comprehensive Income”, 3251 “Equity” and 3861 “Financial Instruments - Disclosure and Presentation”. These standards have been applied without restatement of prior periods except to reclassify unrealized foreign currency translation losses on net investments in self-sustaining foreign operations to accumulated other comprehensive loss. All other transitional adjustments resulting from these standards are recognized in the opening balances of retained earnings and accumulated other comprehensive loss.

Section 3855, “Financial Instruments - Recognition and Measurement” (“Section 3855”) establishes guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments must be classified into a defined category, namely, held-for-trading financial assets or financial liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. The standard requires that financial instruments within scope, including derivatives, be included on the Company’s balance sheet and measured at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at cost or amortized cost. Gains and losses on held-for-trading financial assets and financial liabilities are recognized in net earnings in the period in which they arise. Unrealized gains and losses, including changes in foreign exchange rates on available-for-sale financial assets are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time any unrealized gains or losses are recorded in net earnings. Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method.

Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using a variety of valuation techniques and models as more fully described in note 22 of the consolidated financial statements for the year ended December 31, 2006, included in Weston’s 2006 Financial Report.

As a result of the implementation of Section 3855, the following classifications were assumed:

- Cash and cash equivalents and short term investments are classified as held-for-trading with the exception of certain Loblaw United States dollar denominated short term investments designated in a hedging relationship, which are classified as available-for-sale financial assets.
- Accounts receivable and other receivables are classified as loans and receivables.

- Investments in equity instruments are classified as available-for-sale, except for Weston's investment in exchangeable shares of Domtar (Canada) Paper Inc., which is designated as held-for-trading.
- Bank indebtedness, accounts payable and certain accrued liabilities, long term debt and capital lease obligations are classified as other financial liabilities.
- Weston's 3% Exchangeable Debentures ("Debentures"), which are exchangeable for common shares of Domtar Corporation, are re-measured each period based on the market value of the underlying shares. Prior to the adoption of Section 3855, the Debentures were accounted for in a hedging relationship, and the changes in fair value were deferred on the consolidated balance sheet. As the Debentures are no longer eligible for hedge accounting under the new standards, gains and losses resulting from the re-measurement are recognized in net earnings.

The Company has not classified any financial assets as held-to-maturity.

The above classifications resulted in the following re-measurement impacts:

- The re-measurement of financial assets classified as available-for-sale to fair value resulted in an increase in other assets of $9 million, and a corresponding increase in minority interest of $2 million and a decrease in accumulated other comprehensive loss of $4 million net of income taxes.
- As a result of classifying certain Loblaw United States dollar denominated short term investments designated in a hedging relationship as available-for-sale, the net unrealized gain previously recognized in retained earnings was reclassified to accumulated other comprehensive loss for an amount of $9 million net of income taxes and minority interest.
- The investment in common shares of Domtar Inc. (held by the Company prior to the March 7, 2007 transaction concerning Domtar Inc. as more fully described in note 11) and the retained interest held by President's Choice Bank ("*PC* Bank"), a wholly-owned subsidiary of Loblaw, in securitized receivables are classified as held-for-trading and resulted in a decrease in other assets of $9 million and a corresponding decrease in retained earnings of $8 million net of income taxes and minority interest.
- The re-measurement of financial assets classified as loans and receivables and financial liabilities classified as other liabilities at amortized cost was insignificant except for the impact of the Debentures. Under the accounting treatment as described above, a transitional adjustment resulted in a decrease of $11 million in long term debt, and a corresponding increase in opening retained earnings of $7 million, net of income taxes.

Non-financial derivatives must be recorded at fair value on the consolidated balance sheet unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements. All changes in their fair value are recorded in net earnings unless cash flow hedge accounting is applied, in which case changes in fair value are recorded in other comprehensive income. As a result of Loblaw re-measuring a non-financial derivative at fair value an increase in other assets of $7 million and corresponding increases in minority interest of $2 million and opening retained earnings of $3 million net of income taxes were recognized. The standard requires embedded derivatives to be separated and fair valued if certain criteria are met. Under an election provided for by the standard, January 1, 2003 was elected as the transition date to apply this accounting treatment to embedded derivatives. The impact of this change in accounting treatment related to embedded derivatives was not significant.

During the third quarter and year-to-date 2007, the change in fair value of held-for-trading financial assets and liabilities, including derivatives and non-financial derivatives, recognized in net earnings was a net loss of $45 million and a net gain of $6 million, respectively. For both the third quarter and year-to-date 2007, the change in fair value consisted mainly of the losses resulting from the change in fair value of the exchangeable shares of Domtar (Canada) Paper Inc. and the losses related to the equity derivatives associated with stock-based compensation, net of the gains related to the commodity futures fair value adjustment and the gains related to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares.

The impact of the fair value adjustment related to the exchangeable shares of Domtar (Canada) Paper Inc. on operating income is substantially offset by the re-measurement of the Debentures, as discussed previously.

Section 3855 also requires that obligations undertaken in issuing a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14, "Disclosure of Guarantees" be recognized at fair value at inception. No subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative. As a result, a liability of $7 million related to the fair value of the standby letter of credit issued by a major Canadian chartered bank for the benefit of an independent funding trust which provides loans to Loblaw's independent franchisees was recognized with corresponding decreases of $2 million to minority interest and $4 million net of income taxes to opening retained earnings.

Section 3865, "Hedges" replaces Accounting Guideline 13, "Hedging Relationships". The requirements for identification, designation, documentation and assessment of effectiveness of hedging relationships remain substantially unchanged. Section 3865 addresses the accounting treatment of qualifying hedging relationships and the necessary disclosures and also requires all derivatives in hedging relationships to be recorded at fair value.

As described in notes 1 and 22 of Weston's consolidated financial statements for the year ended December 31, 2006, included in Weston's 2006 Financial Report, the Company has cash flow hedges which are used to manage exposure to fluctuations in commodity prices and to manage Loblaw's exposure to foreign currency exchange rates and variable interest rates. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated other comprehensive income relating to the hedge is carried forward until the hedged item is recognized in net earnings. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income is immediately reclassified to net earnings.

Upon implementation of these requirements with respect to cash flow hedges, an increase in other assets of $17 million and an increase in other liabilities of $34 million related to the fair value of the Loblaw interest rate swaps not previously recognized on the consolidated balance sheet, a decrease in minority interest of $2 million, and a decrease in accumulated other comprehensive loss of $6 million net of income taxes were recorded. A decrease of $9 million in opening retained earnings net of income taxes and minority interest, resulting from the financing element of off-market Loblaw interest rate swaps, was also recorded. In addition, an increase in accumulated other comprehensive loss of $9 million net of income taxes and minority interest was recorded related to the effective portion of the unrealized gains and losses on the Loblaw cross currency basis swaps previously recognized in retained earnings. A $1 million loss, net of income tax, was reclassified from accounts payable and accrued liabilities to accumulated other comprehensive loss representing the effective portion of the Company's commodity hedges. Also on transition, the $125 million deferred loss on Weston's forward sale agreement for 9.6 million Loblaw common shares, which was deferred in other assets, was reclassified to opening retained earnings resulting in a decrease of $89 million net of income taxes. The ineffective portion of the gains or losses on the derivatives within the hedging relationships was insignificant.

Section 1530, "Comprehensive Income" introduces a statement of comprehensive income, which is comprised of net earnings and other comprehensive income. Other comprehensive income represents the change in shareholders' equity from transactions and other events from non-owner sources and includes unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, unrealized gains and losses on financial assets that are classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The Company has included in the unaudited interim period consolidated financial statements a new consolidated statement of comprehensive income for the changes in these items, while the cumulative changes in other comprehensive income are included in accumulated other comprehensive loss, which is presented as a new category of shareholders' equity on the consolidated balance sheet. See note 13 for further details of the accumulated other comprehensive loss balance. Implementation of the new standards resulted in the reclassification of $503 million previously recorded in the cumulative foreign currency translation adjustment, to accumulated other comprehensive loss. Due to the transitional provisions of the standards this reclassification was accounted for retroactively, with restatement of comparative prior periods.

Section 3251, "Equity", which replaced Section 3250, "Surplus", establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from i) net earnings; ii) other comprehensive income; iii) other changes in retained earnings; iv) changes in contributed surplus; v) changes in share capital; and vi) changes in reserves. New consolidated statements of changes in shareholders' equity are included in the unaudited interim period consolidated financial statements.

Section 3861, "Financial Instruments Disclosure and Presentation", which replaces Section 3860, of the same title, establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The following tables summarize the transitional adjustments recorded to the affected balance sheet accounts upon implementation:

($ millions)	Balance as Reported, Dec. 31, 2006	Transitional Adjustments	Opening Balance Jan. 1, 2007
Other assets	$ 1,459	$ (101)	$ 1,358
Accounts payable and accrued liabilities	$ 3,196	$ 1	$ 3,197
Long term debt	$ 5,918	$ (11)	$ 5,907
Future income taxes	$ 366	$ (41)	$ 325
Other liabilities	$ 668	$ 41	$ 709
Retained earnings	$ 4,506	$ (100)	$ 4,406
Accumulated other comprehensive loss	$ (503)	$ 9	$ (494)

	Retained Earnings		Accumulated Other Comprehensive Income/(Loss)	
($ millions)	Gross	Net of Income Taxes and Minority Interest	Gross	Net of Income Taxes and Minority Interest
Classification of financial assets as available-for-sale	$ (14)	$ (9)	$ 23	$ 13
Classification of financial assets as held-for-trading	(9)	(8)		
Exchangeable Debentures	11	7		
Non-financial derivative	7	3		
Guarantees	(7)	(4)		
Cash flow hedges	(9)		(9)	(4)
Reversal of deferred loss on Weston's forward sale agreement	(125)	(89)		
	$ (146)	$ (100)	$ 14	$ 9

3. Restructuring and Other Charges

The following table summarizes the restructuring and other charges:

	16 Weeks Ended					
			Oct. 6, 2007			Oct. 7, 2006
($ millions)	**Weston Foods**	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Accelerated depreciation	**$ 2**		**$ 2**	$ 1		$ 1
Employee termination benefits	**5**	**$ 11**	**16**	6		6
Site closing and other exit costs	**2**	**13**	**15**	6	$ 1	7
	$ 9	**$ 24**	**$ 33**	$ 13	$ 1	$ 14

	40 Weeks Ended					
			Oct. 6, 2007			Oct. 7, 2006
($ millions)	**Weston Foods**	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Fixed asset impairment					$ 2	$ 2
Accelerated depreciation	**$ 6**		**$ 6**	$ 12		12
Gain on sale of fixed assets	**(14)**		**(14)**			
Employee termination benefits	**6**	**$ 121**	**127**	7	4	11
Site closing and other exit costs	**4**	**65**	**69**	11	3	14
	$ 2	**$ 186**	**$ 188**	$ 30	$ 9	$ 39

Weston Foods

Manufacturing Assets

During the third quarter of 2007, Weston Foods approved and completed a plan to transfer the manufacturing of two lines of certain private label English muffins in the United States to third-party producers or other Weston Foods manufacturing lines already in place. As a result of this decision, Weston Foods recognized $2 million of accelerated depreciation in the third quarter of 2007.

During 2006, Weston Foods approved a plan to close an ice-cream cone baking facility in Los Angeles, California and this plan was completed in the first quarter of 2007. During the second quarter of 2007, Weston Foods completed the sale of this facility for proceeds of $11 million and recognized a gain on sale of fixed assets of $9 million.

Also during 2006, Weston Foods approved a plan to close a frozen bagel plant in Nebraska, which was completed in that year. During the second quarter of 2007, Weston Foods completed the sale of this facility for proceeds of $1 million and recognized a loss on sale of fixed assets of $1 million.

During the first quarter of 2007, Weston Foods approved a plan to exit certain bread and roll manufacturing lines in the Southeastern United States. All production associated with these lines will be transferred to third-party producers or other Weston Foods manufacturing facilities. As a result of this decision, Weston Foods recognized $4 million of accelerated depreciation and $1 million of employee termination benefits and other exit related costs in the first quarter of 2007.

During 2005, Weston Foods approved a plan to restructure its United States biscuit operations. This plan included the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia by the end of 2006, with the majority of the production relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota. The sale and lease-back of the Elizabeth facility was completed in 2005 and a portion of the total resulting gain was deferred due to certain conditions relating to this sale lease-back transaction. All manufacturing activities ceased in the Elizabeth facility by the end of 2006. During the first quarter of 2007, Weston Foods vacated this facility in accordance with the terms and conditions of the sale lease-back arrangement and accordingly, recognized the previously deferred gain on sale of fixed assets of $6 million. In addition, Weston Foods recognized $2 million of other exit related costs in the first three quarters of 2007. By the end of the third quarter of 2007, total cumulative charges related to this restructuring plan since 2005 of $21 million of accelerated depreciation and $40 million of employee termination benefits and other exit related costs have been recognized.

Distribution Network Restructuring

During the third quarter of 2007, Weston Foods approved plans to restructure its Ontario frozen bakery distribution operations and to further restructure its Quebec fresh bakery distribution operations. These plans involve the closure and/or consolidation of certain warehouses and outsourcing certain warehousing and distribution functions to third-party warehousing service providers. These plans are expected to be completed in the first quarter of 2008. As a result of these restructuring plans, Weston Foods recorded a charge of $1 million related to employee termination benefits in the third quarter of 2007 and expects to record an additional $2 million related to other exit costs by the end of the first quarter of 2008.

During the third quarter of 2007, Weston Foods also approved a plan to exit and transfer certain distribution and transportation activities in the mid-Western United States to third-party logistic providers. As a result of this restructuring plan, Weston Foods recorded a charge of $2 million related to employee termination benefits in the third quarter of 2007. Weston Foods expects to record approximately $1 million of additional facility related exit costs as part of this plan which is expected to be completed by the end of the second quarter of 2008.

During 2006, Weston Foods approved a plan to restructure a portion of its distribution network in Quebec. As a result of this restructuring, Weston Foods recorded a charge of $1 million for other exit related costs during the second quarter of 2007.

Administrative and Sales Restructuring and Consolidation of Offices

During the third quarter of 2007, Weston Foods approved plans to consolidate, relocate and restructure certain sales and administrative functions in the United States. As a result of this decision, Weston Foods recognized a charge of $2 million related to employee termination benefits and $1 million related to other exit costs in the third quarter of 2007. These plans are expected to be substantially completed by year end 2007.

Year-to-date 2007, approximately $20 million (2006 – $21 million) of severance and other cash exit costs were paid related to the Weston Foods restructuring activities. As at the end of the third quarter of 2007, accrued liabilities related to restructuring plans were $10 million.

Loblaw

Project Simplify During the first quarter, Loblaw approved and announced the restructuring of its merchandising and store operations into more streamlined functions as part of Project Simplify. The total restructuring costs under this plan, comprised primarily of severance costs, are now estimated to be approximately $185 million. In the third quarter of 2007, Loblaw recognized $23 million of restructuring costs resulting from this plan. The year-to-date charge of $168 million is comprised of $120 million for employee termination benefits including severance, additional pension costs resulting from the termination of employees and retention costs; and $48 million of other costs, primarily consulting. At the end of the third quarter, $17 million in estimated costs remain to be incurred and will be recognized as appropriate criteria are met.

Store Operations During 2006, management of Loblaw approved and communicated a plan to close 19 underperforming Quebec stores, mainly within the *Provigo* banner, and 8 stores in the Atlantic region. In addition, as a result of the loss of tobacco sales following the decision by a major tobacco supplier to sell directly to certain customers of Loblaw, a review of the impact on the cash & carry and wholesale club network was undertaken. In 2006, Loblaw management approved and communicated a formal plan to close 24 wholesale outlets which were impacted most significantly by this change. The total restructuring cost under these plans is estimated to be approximately $54 million. Of the $54 million, approximately $10 million is attributable to employee termination benefits, which include severance resulting from the termination of employees, $25 million to fixed asset impairment and accelerated depreciation relating to these restructuring activities and $19 million to site closing and other costs including lease obligations. The year-to-date charge of $16 million relates to site closing and other costs including lease obligations. At the end of the third quarter, $3 million in estimated costs remain to be incurred and will be recognized as appropriate criteria are met.

Supply Chain Network 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 first quarter of 2009 and the total restructuring cost under this plan is estimated to be approximately $90 million. Of the $90 million, 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 relating to this restructuring activity and $20 million to site closing and other costs directly attributable to the restructuring plan. In the third quarter of 2007, Loblaw recognized $1 million of restructuring costs from this plan. Loblaw recognized $2 million (2006 − $8 million) year-to-date of restructuring costs resulting from this plan. At the end of the third quarter, $18 million in estimated costs remain to be incurred and will be recognized as appropriate criteria are met.

Office Move and Reorganization of the Operation Support Functions In 2005, 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. All of the expected $25 million of costs related to these initiatives had been recognized by the end of 2006.

Year-to-date 2007, approximately $154 million (2006 – $8 million) of severance and other cash exit costs were paid related to the above Loblaw restructuring activities. As at the end of the third quarter of 2007, accrued liabilities and other liabilities related to these restructuring activities were $42 million and $21 million, respectively.

4. Interest Expense and Other Financing Charges

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
Interest on long term debt	**$ 119**	$ 120	**$ 297**	$ 303
Interest on financial derivative instruments	**7**	6	**16**	11
Other financing charges(1)	**(51)**	(76)	**(50)**	(107)
Net short term interest	**(20)**	(14)	**(43)**	(28)
Capitalized to fixed assets	**(6)**	(6)	**(17)**	(16)
Interest expense and other financing charges	**$ 49**	$ 30	**$ 203**	$ 163

(1) Other financing charges for the third quarter and year-to-date 2007 includes non-cash income of $44 million (2006 – non-cash income of $69 million) and $31 million (2006 – non-cash income of $90 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 or loss on Weston's disposition of the underlying Loblaw shares. Also included in other financing charges is income of $7 million (2006 – $7 million) for the third quarter of 2007 and income of $19 million (2006 – $17 million) on a year-to-date basis related to the forward accretion income net of the forward fee associated with Weston's forward sale agreement.

Net interest paid in the third quarter and year-to-date 2007 was $90 million and $280 million (2006 – $94 million and $302 million), respectively.

5. Income Taxes

Net income taxes received in the third quarter of 2007 were $4 million, while net income taxes paid in the third quarter of 2006 were $53 million. Year-to-date 2007, net income taxes paid were $148 million (2006 – $254 million).

6. Basic and Diluted Net Earnings per Common Share

	16 Weeks Ended		40 Weeks Ended	
($ millions except where otherwise indicated)	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
Net earnings	**$ 179**	$ 226	**$ 412**	$ 538
Prescribed dividends on preferred shares	**(18)**	(17)	**(44)**	(41)
Net earnings available to common shareholders	**$ 161**	$ 209	**$ 368**	$ 497
Weighted average common shares outstanding (in millions)	**129.1**	129.0	**129.1**	129.0
Dilutive effect of stock-based compensation (in millions) (1)		0.1		0.1
Diluted weighted average common shares outstanding (in millions)	**129.1**	129.1	**129.1**	129.1
Basic and diluted net earnings per common share ($)	**$ 1.25**	$ 1.62	**$ 2.85**	$ 3.85

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

	16 Weeks Ended		40 Weeks Ended	
Option Exercise Price	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
$75.62	**4,135**		**4,135**	
$78.85	**81,168**	81,168	**81,168**	
$93.35	**514,826**	545,291	**514,826**	545,291
$95.88	**100,130**	100,130	**100,130**	100,130
$100.00	**129,400**	169,400	**129,400**	169,400
$111.02	**511,219**	534,469	**511,219**	534,469

7. Credit Card Receivables

During the third quarter $100 million (2006 – $125 million) of credit card receivables were securitized, $225 million (2006 – $240 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 independent trusts. The securitization yielded a nominal net loss (2006 – nominal net loss) based on the assumptions disclosed in note 13 of the consolidated financial statements for the year ended December 31, 2006. The independent trusts' 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% (2006 – 9%) on a portion of the securitized amount.

		As at	
($ millions)	**Oct. 6, 2007**	Oct. 7, 2006	Dec. 31, 2006
Credit card receivables	**$ 1,744**	$ 1,407	$ 1,571
Amount securitized	**(1,475)**	(1,250)	(1,250)
Net credit card receivables	**$ 269**	$ 157	$ 321

8. Goodwill and Intangible Assets

				As at	
			Oct. 6, 2007	Oct. 7, 2006	Dec. 31, 2006
($ millions)	**Weston**	**Loblaw**	**Total**		
Goodwill, beginning of period	**$ 1,121**	**$ 934**	**$ 2,055**	$ 2,886	$ 2,886
Goodwill, acquired during the period		**10**	**10**	2	7
Adjusted purchase price allocation					(42)
Impact of foreign currency translation	**(170)**		**(170)**	(34)	4
Goodwill impairment					(800)
Goodwill, end of period	**951**	**944**	**1,895**	2,854	2,055
Trademarks and brand names(1)	**393**		**393**	449	466
Other intangible assets	**14**		**14**	16	15
Goodwill and intangible assets	**$ 1,358**	**$ 944**	**$ 2,302**	$ 3,319	$ 2,536

(1) The balance includes the negative impact of foreign currency translation of $72 million (2006 – $15 million) and amortization of $1million (2006 – $1 million).

Loblaw has completed its work in connection with the non-cash goodwill impairment charge of $800 million recorded in the Company's audited annual consolidated financial statements for the year ended December 31, 2006. This charge was finalized in the second quarter of 2007.

9. Employee Future Benefits

The Company's total net benefit plan cost recognized in operating income was $81 million and $203 million (2006 – $71 million and $178 million) for the third quarter and year-to-date 2007, 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. During the third quarter of 2007, the amendment of a post-retirement benefit plan resulted in a significant reduction in the number of future years of service, thereby triggering a curtailment. Accordingly, a $7 million pro rata portion of the unamortized past service gain from a previous plan amendment was recognized as a non-cash curtailment gain in the third quarter and year-to-date 2007 and is included in the total net benefit plan cost.

10. Short Term Bank Loans

In the first quarter of 2007, Weston renewed its 364-day revolving committed credit facility of $300 million, which matures in May 2008 and has no financial covenants. At October 6, 2007, $144 million was drawn on this facility and $18 million was drawn on an uncommitted credit facility. Borrowings are based on short term floating interest rates.

In the first quarter of 2007, Loblaw entered into a 364-day revolving committed credit facility of $500 million, which matures in March 2008 and has no financial convenants. At October 6, 2007, $296 million was drawn on this facility, and $10 million was drawn on an uncommitted credit facility. Borrowings are based on short term floating interest rates.

Also included in short term bank loans is Weston's Series B debentures, due on demand, of $209 million.

11. Long Term Debt

On March 7, 2007, pursuant to a transaction whereby Domtar Inc. ("Domtar") was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either exchangeable shares of Domtar (Canada) Paper Inc. or common shares of Domtar Corporation ("New Domtar"), a Delaware Corporation. The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares. The Debentures entitle the holders to exchange their Debentures for common shares of New Domtar on the basis of 95.2381 common shares of New Domtar for each one thousand dollar principal amount of Debentures. Weston's obligation on the exchange or redemption of these Debentures can be satisfied by delivery of a cash amount equivalent to the current market price of the common shares of New Domtar at such time, the common shares of New Domtar or any combination thereof.

Also see note 15, Contingencies, Commitments and Guarantees, for further implications of this transaction to the Company.

12. Share Capital

Common Shares

	As at	
	Oct. 6, 2007	Dec. 31, 2006
Actual common shares outstanding (in millions)	**129.1**	129.1
Weighted average common shares outstanding (in millions)	**129.1**	129.0
Market price per common share	**$ 71.25**	$ 75.60

During the second quarter of 2007, Weston renewed its Normal Course Issuer Bid to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 6,453,726 of its common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, Weston may purchase its shares at the then market prices of such shares. Weston has not purchased any shares under its Normal Course Issuer Bid during 2007.

13. Accumulated Other Comprehensive Loss

The following table provides further detail regarding the composition of accumulated other comprehensive loss:

For the 40 weeks ended October 6, 2007 ($ millions)	Foreign Currency Translation Adjustment	Cash Flow Hedges	Available-for-Sale Assets	Total
Balance, beginning of period	$ (503)			$ (503)
Cumulative impact of implementing new accounting standards (net of income taxes and minority interest of $5)		$ (4)	$ 13	9
Net unrealized loss on available-for-sale financial assets (net of income taxes and minority interest of $23)			(38)	(38)
Reclassification of loss on available-for-sale financial assets (net of income taxes and minority interest of $5)			9	9
Net gain on derivatives designated as cash flow hedges (net of income taxes and minority interest of $23)		34		34
Reclassification of gain on derivatives designated as cash flow hedges (net of income taxes and minority interest of $3)		(7)		(7)
Foreign currency translation adjustment	(512)			(512)
Balance, end of period	$ (1,015)	$ 23	$ (16)	$ (1,008)

An estimated gain of $22 million net of income taxes and minority interest recorded in accumulated other comprehensive loss related to the cash flow hedges as at October 6, 2007, is expected to be reclassified to net earnings during the next 12 months. This will be offset by the foreign currency fluctuation and interest income on the available-for-sale financial assets and the interest expense on the financial liabilities that are hedged. Remaining amounts will be reclassified to net earnings over periods up to 4 years.

During 2007, the change in the cumulative foreign currency translation adjustment from year end 2006 increased accumulated other comprehensive loss by $512 million. This change was due to the negative impact of translating the Company's investment in self-sustaining foreign operations due to the appreciation of the Canadian dollar relative to the United States dollar since year end 2006.

During the third quarter of 2007, Loblaw terminated hedge accounting for interest rate swaps as a cash flow hedge of the variable interest rate exposure on commercial paper. As a result of this termination, the cumulative loss of $1 million, net of income taxes and minority interest, in accumulated other comprehensive loss was reclassified to net earnings.

14. 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:

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
Stock option plans/share appreciation right plan (income) expense	**$ (2)**	$ (6)	**$ 1**	$ (11)
Equity derivatives loss	**29**	53	**18**	66
Restricted share unit plan expense	**3**	5	**13**	16
Net stock-based compensation cost	**$ 30**	$ 52	**$ 32**	$ 71

Stock Option Plan

During the first three quarters of 2007, Weston granted 689,192 stock options with an exercise price of $72.21 per common share and 4,135 stock options with an exercise price of $75.62 under its existing stock option plan. Weston also paid the share appreciation value of $0.5 million (2006 – $0.4 million) on the exercise of 21,965 (2006 – 10,670) stock options and share appreciation rights. In addition, 168,857 (2006 – 100,430) stock options and share appreciation rights were forfeited or cancelled during the first three quarters of 2007.

Loblaw granted 194,559 (2006 – nil) stock options with an exercise price of $49.11 per common share during the third quarter; 38,938 (2006 − 140,612) stock options with an exercise price of $46.01 (2006 − $55.50) per common share and 148,987 stock options with an exercise price of $50.80 per common share during the second quarter and 3,885,439 (2006 − 48,742) stock options with an exercise price of $47.44 (2006 − $54.71) per common share during the first quarter. Loblaw paid the share appreciation value of $0.2 million (2006 – $6 million) on the exercise of 108,000 (2006 – 486,413) stock options. In addition, 1,445,788 (2006 – 463,394) stock options were forfeited or cancelled.

At the end of the third quarter of 2007 a total of 2,436,763 (2006 – 2,020,200) Weston stock options and share appreciation rights were outstanding, which represented approximately 1.9% (2006 – 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 Units ("RSU") Plan

Under its existing RSU plan, Weston granted nil (2006 – nil) RSUs in the third quarter of 2007. In the second quarter of 2007, 3,463 (2006 – 5,000) RSUs were granted and in the first quarter of 2007, 32,636 (2006 – 143,049) RSUs were granted. In addition 13,506 (2006 – 6,329) RSUs were cancelled and 6,529 (2006 – 2,589) RSUs were settled in cash in the first three quarters of 2007.

Under its existing RSU plan, Loblaw granted 23,425 (2006 – nil) RSUs in the third quarter; 10,925 (2006 – 46,289) RSUs in the second quarter and 281,818 (2006 − 644,712) in the first quarter. In addition, 142,322 (2006 – 209,997) RSUs were cancelled and 134,882 (2006 – 111,470) were paid out in the amount of $7 million (2006 – $6 million) in the first three quarters of 2007.

At the end of the third quarter of 2007, a total of 314,975 (2006 – 299,032) Weston and 788,916 (2006 – 752,718) Loblaw RSUs were outstanding.

15. Contingencies, Commitments and Guarantees

Guarantees – Independent Funding Trust

Independent franchisees of Loblaw may obtain financing through a structure involving independent trusts which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixturing and equipment. Based on a formula, Loblaw has agreed to provide credit enhancement, in the form of a standby letter of credit for the benefit of the independent funding trust equal to approximately 10% of the principal amount of the loans outstanding at any point in time. This credit enhancement allows the independent funding trust to provide favorable financing terms to Loblaw's independent franchisees. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan or the default is not otherwise remedied, the independent funding trust may assign the loan to Loblaw and draw upon this standby letter of credit. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. No amount has ever been drawn on the standby letter of credit. At the end of the third quarter of 2007, the principal amount of the franchisee loans outstanding was $418 million, and the standby letter of credit was $44 million.

Neither the independent funding trust nor Loblaw can voluntarily terminate the agreement prior to December 2009, and following that date only upon six months' prior notice. Automatic termination of the agreement can only occur if specific, predetermined events occur and are not remedied within the time periods required including a credit rating downgrade of Loblaw below a long term credit rating of "A (low)" issued by Dominion Bond Rating Service. If the arrangement is terminated, the independent funding trust would have no obligation to make further loans to Loblaw's franchisees and it would demand payment of all outstanding loans and the standby letter of credit provided to the independent funding trust by Loblaw would be drawn upon. As a result, if such an event were to occur, long term debt in the amount of $126 million would need to be reclassified to short term liabilities. This amount relates to certain franchisees that are variable interest entities that Loblaw currently consolidates. In the event that Loblaw restructures the independent funding trusts, any new alternative financing structure which may be implemented would need to be reviewed to determine if there are any implications with respect to the consolidation of VIEs. In accordance with Canadian GAAP, the financial statements of the independent funding trust are not consolidated with those of the Company.

Legal Proceedings

During the first quarter of 2007, Weston and Loblaw were two of 17 defendants served with an action brought in the Superior Court of Ontario by certain beneficiaries of a multi-employer pension plan in which employees of Loblaw and those of its independent franchisees participate. In their claim against the employers and the trustees of the multi-employer pension plan, the plaintiffs claim that assets of the multi-employer pension plan have been mismanaged and are seeking, among other demands, damages of $1 billion. The action is framed as a representative action on behalf of all the beneficiaries of the multi-employer pension plan. The Company has recently received notice from counsel for the plaintiffs indicating that he has received instructions from his client to discontinue the action against the employers including the Company. The action against the trustees is ongoing and one of the trustees, an officer of Loblaw, may be entitled to indemnification from Loblaw.

On March 7, 2007, pursuant to a transaction whereby Domtar was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either exchangeable shares of Domtar (Canada) Paper Inc. or common shares of Domtar Corporation, a Delaware Corporation. The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares.

A Share Purchase Agreement governing the June 1998 sale by Weston of E.B. Eddy Paper, Inc. to Domtar (the "SPA") contains a price adjustment clause. The SPA provides, subject to certain limited exceptions, that if any person subsequently acquired more than 50% of the outstanding voting shares of Domtar, the price adjustment clause applies. Weston believes that a price adjustment in the amount of $110 million is payable and Weston has demanded payment of such amount from Domtar. Domtar's position is that the purchase price adjustment does not apply because of the application of an exception contained in the SPA. Weston has commenced an action against Domtar for $110 million on the basis that the consummation of its transaction with Weyerhaeuser Inc. triggered the purchase price adjustment under the SPA. The parties have exchanged legal pleadings.

In addition to the claims described above, the Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings is uncertain. However, based on information currently available, these claims, individually and in the aggregate, are not expected to have a material impact on the Company.

16. 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 2006 Financial Report. The Company measures each segment's performance based on operating income. No segment is reliant on any single external customer.

	16 Weeks Ended		40 Weeks Ended	
($ millions)	**Oct. 6, 2007**	Oct. 7, 2006	**Oct. 6, 2007**	Oct. 7, 2006
Sales				
Weston Foods	**$ 1,299**	$ 1,337	**$ 3,364**	$ 3,364
Loblaw	**9,137**	9,010	**22,417**	21,856
Intersegment	**(273)**	(262)	**(658)**	(631)
Consolidated	**$ 10,163**	$ 10,085	**$ 25,123**	$ 24,589
Operating Income				
Weston Foods	**$ 128**	$ 69	**$ 317**	$ 189
Loblaw	**248**	396	**596**	978
Consolidated	**$ 376**	$ 465	**$ 913**	$ 1,167

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 Shared Services 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. 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 company with shares trading on the Toronto Stock Exchange. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw with the Canadian securities regulatory authorities from time to time. These filings are also maintained at Loblaw's corporate website at www.loblaw.ca.

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