Q2 2008

Quarterly Report to Shareholders

George Weston Limited

24 Weeks Ended June 14, 2008

Weston

FORWARD-LOOKING STATEMENTS

This Quarterly Report for George Weston Limited ("Weston") and its subsidiaries (collectively, the "Company"), including this Management's Discussion and Analysis ("MD&A"), contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Words such as "anticipate", "expect", "believe", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events.

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These risks and uncertainties include, but are not limited to: changes in economic conditions; changes in consumer spending and preferences; heightened competition, whether from new competitors or current competitors; the availability and cost of raw materials and ingredients, fuels and utilities; changes in the Company's or its competitors' pricing strategies; failure of the Company's franchised stores to perform as expected; risks associated with the terms and conditions of financing programs offered to the Company's independent franchisees; failure to realize sales growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including investments in the Company's information technology systems, supply chain investments and other cost reduction and simplification initiatives; increased costs relating to utilities, including electricity, and fuel; the inability of the Company's information technology infrastructure to support the requirements of the Company's business; the inability of the Company to manage inventory to minimize the impact of obsolete or excess issues and to control shrink; failure to execute successfully and in a timely manner the Company's major initiatives, including the implementation of strategies and introduction of innovative products; unanticipated costs associated with the Company's strategic initiatives, including those related to compensation costs; the inability of the Company's supply chain to service the needs of the Company's stores; deterioration in the Company's relationship with its employees, particularly through periods of change in the Company's business; failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements; changes to the regulatory environment in which the Company operates; the adoption of new accounting standards and changes in the Company's use of accounting estimates including in relation to inventory valuation; fluctuations in the Company's earnings due to changes in the value of stock-based compensation and equity derivative contracts relating to the Company's and Loblaw Companies Limited's ("Loblaw") common shares; changes in the Company's tax liabilities resulting from changes in tax laws or future assessments; detrimental reliance on the performance of third-party service providers; public health events; the inability of the Company to obtain external financing; the inability of the Company to attract and retain key executives; and supply and quality control issues with vendors. These 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 2007 Annual Report. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements.

In addition to these risks and uncertainties, the material assumptions used in making the forward-looking statements contained herein and in particular in the Report to Shareholders and the section entitled "Outlook" on pages 3 and 18 of this Quarterly Report, include: there is no material change in economic conditions; patterns of consumer spending and preferences remain reasonably consistent with historical trends; there is no significant change in competitive conditions, whether related to new competitors or current competitors; there are no unexpected changes in the Company's or its competitors' current pricing strategies; the Company's franchised stores perform as expected; the Company successfully offers new and innovative products and executes its strategies as planned; anticipated cost savings and operating efficiencies are achieved, including those from the Company's cost reduction and simplification initiatives; there is no unexpected adverse change in the Company's access to liquidity; and there are no significant regulatory, tax or accounting changes or other significant events occurring outside the ordinary course of business.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Quarterly Report. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

CONSOLIDATED RESULTS OF OPERATIONS

(unaudited) ($ millions except where otherwise indicated)	12 Weeks Ended **Jun. 14, 2008**	Jun. 16, 2007	Change	24 Weeks Ended **Jun. 14, 2008**	Jun. 16, 2007	Change
Sales	**$ 7,847**	$ 7,739	1.4%	**$ 15,184**	$ 14,960	1.5%
Operating income	**$ 340**	$ 328	3.7%	**$ 592**	$ 537	10.2%
Operating margin	**4.3%**	4.2%		**3.9%**	3.6%	
Interest expense and other financing charges	**$ 107**	$ 102	4.9%	**$ 129**	$ 154	(16.2)%
Net earnings	**$ 118**	$ 129	(8.5)%	**$ 249**	$ 233	6.9%
Basic net earnings per common share ($)	**$ 0.84**	$ 0.90	(6.7)%	**$ 1.75**	$ 1.60	9.4%
EBITDA[(1)]	**$ 502**	$ 493	1.8%	**$ 915**	$ 869	5.3%
EBITDA margin[(1)]	**6.4%**	6.4%		**6.0%**	5.8%	
Free cash flow[(1)]	**$ 205**	$ 402	(49.0)%	**$ (284)**	$ (5)	(5,580.0)%

Net earnings for the second quarter of 2008 were $118 million, an 8.5% decrease over the same period last year, and basic net earnings per common share of $0.84 compared to $0.90 in the second quarter last year, a decrease of 6.7%.

Sales in the second quarter of 2008 were $7.8 billion compared to $7.7 billion in the same period last year, an increase of 1.4%. The impact of foreign currency translation on the Weston Foods operating segment negatively impacted consolidated sales growth by approximately 0.8% for the second quarter of 2008.

Operating income for the second quarter of 2008 was $340 million compared to $328 million in 2007, an increase of 3.7%. Consolidated operating margin of 4.3% for the second quarter increased compared to 4.2% for the same period in 2007. Year-over-year changes in the following items together with additional factors outlined in the MD&A influenced the Company's operating income in the second quarter of 2008 compared to the same period in 2007:

- a charge of $3 million (2007 – $66 million) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw. The effect on basic net earnings per common share was a charge of $0.02 (2007 – $0.19);

- income of $13 million (2007 – $17 million) related to the net effect of stock-based compensation and the associated equity derivatives of both Weston and Loblaw. The effect on basic net earnings per common share was income of $0.05 (2007 – $0.07);

- a charge of $34 million (2007 – income of $12 million) related to the commodity derivatives fair value adjustment at Weston Foods. The effect on basic net earnings per common share was a charge of $0.17 (2007 – $0.06 per common share income); and

- income of $7 million (2007 – nil) related to the redemption of the remaining outstanding Weston 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares. The effect on basic net earnings per common share was income of $0.04 (2007 – nil).

(1) See Non-GAAP Financial Measures on page 18.
(2) To be read in conjunction with "Forward-Looking Statements".

Excluding the impact of the specific items noted above, performance in the second quarter of 2008 was challenging. Loblaw is behind in its plans for operating as an effective selling organization, as reflected in its second quarter sales performance. However, Loblaw remains on track with its cost reduction efforts, and while Loblaw is satisfied with its margin performance, it is continuing its investments in foundational infrastructure, offer enhancement, and value for its customers. The Weston Foods operating segment continues to experience significant cost pressure in the price of flour, fuel and other input items. However, a combination of pricing actions, changes in sales mix, and cost reduction initiatives resulted in positive operating income growth in the second quarter, after excluding the impact of the specific items noted above, as compared to the second quarter of 2007.

Interest expense and other financing charges for the second quarter of 2008 increased 4.9% to $107 million from $102 million in 2007, primarily due to lower net short term investment income, partially offset by a decreased non-cash charge related to the accounting for Weston's 2001 forward sale agreement of 9.6 million Loblaw common shares of $27 million (2007 – $32 million), which resulted in a basic net earnings per common share non-cash charge of $0.15 (2007 – $0.17).

The effective income tax rate increased to 25.8% in the second quarter of 2008 compared to 23.9% for the same period in 2007, primarily due to an increase in income tax accruals relating to certain income tax matters and a change in the proportion of taxable income earned across different tax jurisdictions, which were partially offset by lower Canadian federal and certain provincial statutory income tax rates relative to the second quarter of 2007.

Free cash flow(1) for the second quarter of 2008 was $205 million compared to $402 million in the second quarter of 2007. On a year-to-date basis, free cash flow(1) was negative $284 million compared to negative $5 million in 2007. The decreases in second quarter and year-to-date free cash flows were due to a decrease in cash flows from operating activities, net of a decrease in capital expenditures, compared to the prior year periods.

On April 11, 2008, Weston entered into a $300 million, 5-year committed credit facility provided by a syndicate of banks, replacing the previous $300 million, 364-day credit facility. On May 30, 2008, Loblaw closed a USD $300 million private placement of unsecured notes, and on June 11, 2008, Loblaw announced a public offering of $225 million of second preferred shares, which closed subsequent to the end of the second quarter of 2008 for net proceeds of $218 million.

OPERATING SEGMENTS

Weston Foods

Weston Foods sales for the second quarter of 2008 of $1.0 billion increased 2.0% compared to the second quarter of 2007. Foreign currency translation negatively impacted reported sales growth by approximately 6.3%. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 8.5% for the second quarter of 2008. Overall volume decreased by 0.2% for the second quarter of 2008 when compared to the same period last year.

Weston Foods operating income for the second quarter of 2008 was $79 million compared to $112 million in the same period in 2007, a decrease of 29.5%. Weston Foods operating margin for the second quarter was 7.7% compared to 11.2% in the same period in 2007. Excluding the impact of restructuring and other charges, the net effect of stock-based compensation and the associated equity derivatives, the commodity derivatives fair value adjustment and the redemption of the remaining outstanding Weston 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares, which are more fully described in the MD&A, Weston Foods operating income growth was strong. Weston Foods experienced significant increases in the price of flour, fuel and other input items, as compared to the second quarter of 2007, but was able to increase prices and manage its sales mix towards higher margin products. In addition, the benefits realized from the continued focus on cost reduction initiatives, including restructuring activities, had a positive impact on operating income.

(1) See Non-GAAP Financial Measures on page 18.

Loblaw
Loblaw sales for the second quarter of 2008 increased 1.5% or $104 million to $7.0 billion compared to the second quarter of 2007. Same-store sales in the second quarter increased by 0.7% over the second quarter of 2007 during a period of modest internal retail food price deflation. Sales and same-store sales growth in the second quarter of 2008 were negatively impacted by approximately 0.7% as a result of a shift of Easter sales into the first quarter of 2008. Total sales growth in food was positive and drugstore sales were particularly strong, while general merchandise sales declined compared to the second quarter of 2007. In addition, gas bar sales were strong in the second quarter as a result of fuel price inflation and volume growth. Total sales increases in the second quarter of 2008 were achieved by positive growth in both customer and item counts.

Loblaw operating income for the second quarter of 2008 was $261 million compared to $216 million in the same period in 2007, an increase of 20.8%. Loblaw operating margin for the second quarter was 3.7% compared to 3.1% in the same period in 2007. Excluding the impact of restructuring and other costs and the net effect of stock-based compensation and the associated equity forwards, which are more fully described in the MD&A, operating income and operating margin declined in the second quarter of 2008 compared to the second quarter of 2007, as a result of Loblaw's continued investment in lower retail prices which was initiated in the third quarter of 2007.

OUTLOOK(2)
The consolidated results of George Weston Limited for 2008 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 operating margins to remain under pressure as the costs of key input items continue to rise. Weston Foods will focus on mitigating this cost inflation through cost reduction efforts and by managing product mix.

For the balance of the year, Loblaw will direct its efforts towards building profitable sales momentum while continuing to improve value for customers. Focus on cost and operating efficiencies will continue as margins are expected to remain under pressure.

[signed]

W. Galen Weston
Chairman and President

Toronto, Canada
July 28, 2008

(2) To be read in conjunction with "Forward-Looking Statements".

The following MD&A for George Weston Limited should be read in conjunction with Weston's 2008 unaudited interim period consolidated financial statements and the accompanying notes on pages 22 to 48 of this Quarterly Report and the audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2007 and the related annual MD&A included in Weston's 2007 Annual Report. Weston's 2008 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 beginning on page 114 of Weston's 2007 Annual 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 and cash equivalents, short term investments, security deposits which are included in other assets and the Domtar (Canada) Paper Inc. investment; 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 July 28, 2008, unless otherwise noted.

CONSOLIDATED RESULTS OF OPERATIONS

Sales Sales for the second quarter of 2008 increased 1.4%, or $108 million, to $7.8 billion from $7.7 billion in the second quarter of 2007. On a year-to-date basis, sales increased 1.5% to $15.2 billion. The impact of foreign currency translation on the Weston Foods operating segment negatively impacted consolidated sales growth by approximately 0.8% for the second quarter of 2008 and 1.2% on a year-to-date basis. When compared to the same period last year, the Company's consolidated sales for the second quarter of 2008 were impacted by each of its reportable operating segments as follows:

- Positively by 0.3% at Weston Foods as a result of a sales increase of 2.0%, which included the negative impact of foreign currency translation on reported sales growth of approximately 6.3%. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 8.5% for the second quarter of 2008. Overall volume decreased 0.2% for the second quarter of 2008 with the positive impact of growth in certain higher margin categories being more than offset by declines in other categories.

- Positively by 1.3% due to sales growth of 1.5% at Loblaw. Same-store sales increased by 0.7% in the second quarter during a period of modest internal retail price deflation. The shift of Easter sales into the first quarter of 2008 resulted in approximately 0.7% lower growth in the second quarter of 2008. Total sales growth in food was positive and drugstore sales were particularly strong, while general merchandise sales declined compared to the second quarter of 2007. In addition, gas bar sales were strong in the second quarter as a result of fuel price inflation and volume growth. Total sales increases in the second quarter of 2008 were achieved by positive growth in both customer and item counts.

Operating Income Operating income for the second quarter of 2008 was $340 million compared to $328 million in 2007, an increase of 3.7%. The Company's second quarter 2008 operating margin increased to 4.3% from 4.2% in the comparable period of 2007.

The year-over-year change in the following items influenced operating income for the second quarter of 2008 compared to the second quarter of 2007:

- a charge of $3 million (2007 – $66 million) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- income of $13 million (2007 – $17 million) related to the net effect of stock-based compensation and the associated equity derivatives at both Weston and Loblaw. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised, vested stock options and restricted share units relative to the number of underlying common shares on the equity derivatives and the level of and fluctuations in the market prices of the underlying common shares;

- a charge of $34 million (2007 – income of $12 million) related to the commodity derivatives fair value adjustment at Weston Foods. This commodity derivatives fair value adjustment includes realized and unrealized gains and losses related to future purchases of raw materials; and
- income of $7 million (2007 – nil) related to the redemption of the remaining outstanding Weston 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares.

When compared to the same period last year, the Company's change in operating income for the second quarter of 2008 was impacted by each of its reportable operating segments as follows:

- Negatively by 10.0% due to a decrease of 29.5% in operating income at Weston Foods, with operating margin decreasing to 7.7% compared to 11.2% in 2007. Weston Foods operating income and operating margin were negatively impacted by the commodity derivative fair value adjustment, higher restructuring costs and a decrease in net stock-based compensation income, net of the gain on the redemption of the Weston 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares. Excluding these specific items, operating income 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 completed restructuring activities.

- Positively by 13.7% due to an increase of 20.8% in operating income at Loblaw, with operating margin increasing to 3.7% compared to 3.1% in 2007. Excluding the impact of restructuring and other costs and the net effect of stock-based compensation and the associated equity forwards, operating income and operating margin declined in the second quarter of 2008 compared to the second quarter of 2007, as a result of Loblaw's continued targeted investments in lower retail prices to drive sales growth. Loblaw initiated significant pricing investments in the third quarter of 2007 and as a result, margins in the second quarter of 2008 were negatively impacted when compared to the second quarter of 2007.

Year-to-date operating income for 2008 was $592 million compared to $537 million in 2007, an increase of 10.2%. Operating margin for 2008 year-to-date was 3.9% compared to 3.6% in 2007.

The year-over-year change in the following items influenced operating income for the first half of 2008 compared to the first half of 2007:

- a charge of $8 million (2007 – $155 million) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a charge of $25 million (2007 – $2 million) related to the net effect of stock-based compensation and the associated equity derivatives of both Weston and Loblaw;
- a charge of $10 million (2007 – income of $12 million) related to the commodity derivatives fair value adjustment at Weston Foods; and
- income of $7 million (2007 – nil) related to the redemption of the remaining outstanding Weston 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares.

EBITDA[(1)] increased by $9 million or 1.8%, to $502 million in the second quarter of 2008 compared to $493 million in the second quarter of 2007. On a year-to-date basis EBITDA[(1)] increased by $46 million or 5.3% to $915 million compared to $869 million in 2007. EBITDA margin[(1)] for the second quarter remained unchanged at 6.4%, impacted by offsetting higher EBITDA margins[(1)] at Loblaw and lower EBITDA margins[(1)] at Weston Foods. On a year-to-date basis EBITDA margin[(1)] increased to 6.0% from 5.8% in 2007, positively impacted by higher EBITDA margins[(1)] at Loblaw and partially offset by lower EBITDA margins[(1)] at Weston Foods.

Interest Expense and Other Financing Charges Interest expense and other financing charges for the second quarter of 2008 increased $5 million, or 4.9%, to $107 million from $102 million in the second quarter of 2007. The change was mainly the result of:

- net short term interest income of $1 million compared to $7 million in 2007, primarily due to lower interest rates on United States dollar denominated cash, cash equivalents and short term investments; and

(1) See Non-GAAP Financial Measures on page 18.

- dividends on capital securities of $5 million compared to nil in 2007. During the second quarter of 2008, the 10.6 million outstanding Preferred Shares, Series II, which were previously presented as share capital on the consolidated balance sheet were reclassified to capital securities and are included in liabilities, to conform with the Canadian Institute of Chartered Accountants ("CICA") Section 3863, "Financial Instruments – Presentation". Dividends on these preferred shares are presented in interest expense and other financing charges in the consolidated statement of earnings in the second quarter of 2008 and onwards.

partially offset by:

- a non-cash charge of $27 million compared to $32 million in 2007 which 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 of the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw common shares that Weston owns. Weston does not record any change in the market price associated with the Loblaw common shares it owns. Any cash paid under the forward contract could be offset by the sale of the Loblaw common shares; and

- interest income from financial derivative instruments of $1 million compared to an expense of $4 million in 2007 which includes the effect of the Company's interest rate swaps, cross currency basis swaps, fixed cross currency swaps and equity derivatives.

Year-to-date interest expense and other financing charges decreased by $25 million to $129 million from $154 million in 2007. This decrease was primarily due to the non-cash income of $24 million (2007 – non-cash charge of $13 million) related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares and by the impact of lower interest expense on financial derivatives in 2008 compared to 2007, partially offset by the negative impact of lower net short term interest income and the dividends on capital securities.

Income Taxes The effective income tax rate increased to 25.8% in the second quarter of 2008 compared to 23.9% in the second quarter of 2007 and on a year-to-date basis increased to 29.4% from 23.2%. The increases were primarily due to an increase in income tax accruals relating to certain income tax matters and a change in the proportions of taxable income earned across different tax jurisdictions, which were partially offset by lower Canadian federal and certain provincial statutory income tax rates relative to the prior year periods.

Net Earnings Net earnings for the second quarter of 2008 decreased $11 million, or 8.5%, to $118 million from $129 million in 2007 and on a year-to-date basis increased $16 million, or 6.9%, to $249 million from $233 million in 2007. Basic net earnings per common share for the second quarter of 2008 decreased $0.06, or 6.7%, to $0.84 from $0.90 in 2007 and year-to-date increased $0.15, or 9.4%, to $1.75 from $1.60 in 2007.

Basic net earnings per common share were affected in the second quarter of 2008 compared to the second quarter of 2007 by the following factors:

- a $0.02 per common share charge (2007 – $0.19) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- $0.05 per common share income (2007 – $0.07) related to the net effect of stock-based compensation and the associated equity derivatives of both Weston and Loblaw;
- a $0.17 per common share charge (2007 – $0.06 per common share income) related to the commodity derivatives fair value adjustment at Weston Foods;
- a $0.15 per common share non-cash charge (2007 – $0.17) related to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares;
- $0.02 per common share income (2007 – nil) related to the income tax effect of the fair value adjustment of the Domtar (Canada) Paper Inc. shares, net of the re-measurement of the Weston 3% Exchangeable Debentures; and
- $0.04 per common share income (2007 – nil) related to the redemption of the remaining outstanding Weston 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares.

The 2008 year-to-date basic net earnings per common share were affected by the following factors compared to 2007:

- a $0.04 per common share charge (2007 – $0.47) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a $0.16 per common share charge (2007 – $0.04) related to the net effect of stock-based compensation and the associated equity derivatives of both Weston and Loblaw;
- a $0.05 per common share charge (2007 – $0.06 per common share income) related to the commodity derivatives fair value adjustment at Weston Foods;
- $0.14 per common share non-cash income (2007 – $0.07 per common share non-cash charge) related to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares;
- a $0.03 per common share charge (2007 – $0.02 per common share income) related to the income tax effect of the fair value adjustment of the Domtar (Canada) Paper Inc. shares, net of the re-measurement of the Weston 3% Exchangeable Debentures; and
- $0.04 per common share income (2007 – nil) related to the redemption of the remaining outstanding Weston 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares.

REPORTABLE OPERATING SEGMENTS
Weston Foods

Sales Weston Foods sales for the second quarter of 2008 of $1.0 billion increased 2.0% compared to the same period in 2007. Foreign currency translation negatively impacted reported sales growth by approximately 6.3%. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 8.5% for the second quarter of 2008. Overall volume decreased 0.2% for the second quarter of 2008 with the positive impact of growth in certain higher margin categories being more than offset by declines in other categories.

On a year-to-date basis, sales of $2.0 billion decreased 1.4% compared to the same period in 2007. Foreign currency translation negatively impacted reported sales growth by approximately 8.6%. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 7.2% for year-to-date 2008. Overall volume was flat on a year-to-date basis and was positively impacted by growth in certain higher margin categories being offset by declines in other categories.

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

Fresh bakery sales increased approximately 11.5% in the second quarter of 2008 and 10.0% year-to-date compared to the same periods in 2007, driven by price increases in key product categories combined with changes in sales mix. For the second quarter of 2008 and on a year-to-date basis, branded volume increases in the *Thomas'* and *Arnold* brands in the United States and *D'Italiano* brand in Canada were offset by volume declines in other categories, particularly in private label products. Sales growth in whole grain and whole wheat products exceeded the sales growth of white flour based products. The introduction of new and expanded products, such as *Thomas'* Mini Bagels, *Thomas'* 100 Calorie Bagel, *Thomas'* 100 Calorie English Muffin, *Arnold* Double Breads, *Gadoua Vitalité, Wonder+ Headstart* and products under the *Weight Watchers*® licensed brand, contributed positively to branded sales growth during the second quarter of 2008 and year-to-date.

Fresh-baked sweet goods sales, primarily sold under the *Entenmann's* brand, increased approximately 3.1% in the second quarter of 2008 and 0.6% year-to-date compared to the same periods in 2007 mainly due to price increases and focused promotional activity. Volume growth for the second quarter of 2008 was positive, but volumes on a year-to-date basis remained lower than 2007 due to softness in certain full-size categories, including the impact of item rationalization, partially offset by growth in hand-held categories, including *Entenmann's Little Bites*.

Frozen bakery sales increased approximately 8.6% in the second quarter of 2008 and 8.1% year-to-date compared to the same periods in 2007, driven mainly by price increases combined with changes in sales mix, offset by lower volumes. Volumes for the second quarter of 2008 were negatively impacted by the timing of customer orders related to the Easter holiday, which fell in the first quarter of 2008.

Dairy and bottled beverage sales increased approximately 2.4% in the second quarter of 2008 and 3.4% year-to-date compared to the same periods in 2007 due to price increases and improvements in the sales mix as growth continued to be experienced in a number of key categories, particularly value-added and flavored milk products. Although volumes declined slightly in the second quarter of 2008 when compared to the second quarter of 2007, volume growth remained positive on a year-to-date basis.

Biscuit sales, principally wafers, ice-cream cones, cookies and crackers, increased approximately 5.4% in the second quarter of 2008 and 5.6% year-to-date compared to the same periods in 2007, primarily due to higher volume of Girl Scout cookie sales.

Operating Income Weston Foods operating income decreased 29.5% to $79 million in the second quarter of 2008 from $112 million in the same period in 2007. Operating margin was 7.7% for the second quarter of 2008 compared to 11.2% in 2007.

The year-over-year change in the following items influenced operating income for the second quarter of 2008 compared to the second quarter of 2007:

- a charge of $2 million (2007 – income of $7 million) related to restructuring and other charges;
- income of $3 million (2007 – $6 million) related to the net effect of stock-based compensation and the associated equity derivatives;
- a charge of $34 million (2007 – income of $12 million) related to the commodity derivatives fair value adjustment; and
- income of $7 million (2007 – nil) related to the redemption of the remaining outstanding Weston 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares.

In addition, foreign currency translation negatively impacted second quarter 2008 operating income growth by approximately 1.8 percentage points.

On a year-to-date basis, Weston Foods operating income decreased 5.8% to $178 million from $189 million in 2007. Operating margin for 2008 was 8.7% compared to 9.2% in 2007.

The year-over-year change in the following items influenced operating income for the first half of 2008 compared to the first half of 2007:

- a charge of $4 million (2007 – income of $7 million) related to restructuring and other charges;
- a charge of $10 million (2007 – $1 million) related to the net effect of stock-based compensation and the associated equity derivatives;
- a charge of $10 million (2007 – income of $12 million) related to the commodity derivatives fair value adjustment; and
- income of $7 million (2007 – nil) related to the redemption of the remaining outstanding Weston 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares.

In addition, foreign currency translation negatively impacted year-to-date 2008 operating income growth by approximately 6.9 percentage points.

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 derivatives to reduce the impact of price fluctuations in a specified percentage of forecasted raw material purchases over a specified period of time. These commodity derivatives are not acquired for trading or speculative purposes. Certain of these derivatives are not designated as cash flow hedges of anticipated future raw material purchases, therefore hedge accounting does not apply. Accordingly, the changes in fair value of these derivatives, which include realized and unrealized gains and losses related to future purchases of raw materials, are recorded in operating income. During the second quarter of 2008, Weston Foods recorded in operating income a non-cash charge of $34 million (2007 – non-cash income of $12 million) related to the fair value adjustment of exchange traded commodity derivatives that were not designated within a hedging relationship. Regardless of designation for accounting, these commodity derivatives have the economic impact of largely mitigating the associated risks arising from price fluctuations in the underlying commodities.

Weston Foods operating income and operating margin for the second quarter of 2008 and year-to-date were impacted negatively by the specific items described above, in particular the change in the commodity derivatives fair value adjustment, when compared to the prior year periods. Excluding these specific items, operating income and operating margin were positively impacted by sales growth primarily due to price increases combined with changes in sales mix, and the benefits realized from the continued focus on cost reduction initiatives, restructuring activities and reduced product returns. Pricing and other actions mitigated the impact of higher fuel costs and the inflationary cost pressures related to certain ingredients, primarily flour, oils and sugar. Gross margin decreased in the second quarter of 2008 and year-to-date mainly as a result of the commodity derivatives fair value adjustment.

Weston Foods continuously evaluates 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. The following items related to those initiatives were recorded in 2008:

- During the second quarter of 2008, Weston Foods approved a plan to close a fresh bakery manufacturing facility in Ontario. This restructuring is expected to be completed in the fourth quarter of 2008. As a result of this restructuring plan, Weston Foods recognized $1 million of accelerated depreciation and $1 million of employee termination benefits in the second quarter of 2008.

- During 2006, Weston Foods approved a restructuring plan to downsize its fresh-baked goods facility in Bay Shore, New York. The plan, which is now complete, involved the transfer of full-size dessert cake and cookie production to other existing Weston Foods facilities. The Bay Shore location is now a more focused facility producing primarily danish and pie products. As a result of this restructuring plan, Weston Foods recognized an additional fixed asset impairment charge of $1 million (2007 – nil) and $2 million (2007 – nil) of additional employee termination benefits in the first quarter of 2008.

- During the third quarter of 2007, Weston Foods approved a plan to exit and transfer certain distribution and transportation activities in the mid-Western United States to third-party logistic providers. This plan has been completed. Weston Foods recognized income of $1 million (2007 – nil) as a result of the reversal of exit related accruals net of additional exit costs in the first quarter of 2008.

During the second quarter of 2008, Weston purchased a frozen bakery manufacturing facility in Ontario, Canada for cash consideration of $10 million. The acquisition was accounted for using the purchase method of accounting. The impact of the acquisition on Weston Foods' operating results was not significant. The fair value of the net assets acquired has been estimated to consist of $1 million of inventories and $10 million of fixed assets, net of current liabilities of $1 million. The purchase price allocation will be finalized by the end of the third quarter of 2008.

EBITDA(1) decreased by $33 million, or 23.7%, to $106 million in the second quarter of 2008 compared to $139 million in 2007. On a year-to-date basis EBITDA(1) decreased by $17 million, or 6.9%, to $230 million compared to $247 million in 2007. EBITDA margin(1) decreased in the second quarter of 2008 to 10.4% from 13.8% in 2007 and on a year-to-date basis to 11.3% from 12.0% in 2007.

Loblaw

Sales Sales for the second quarter increased by 1.5% to $7.0 billion compared to $6.9 billion in the second quarter of 2007. Total sales growth in food was positive and drugstore sales were particularly strong, while general merchandise sales declined compared to the second quarter of 2007. Same-store sales increased by 0.7% in the second quarter during a period of modest internal retail food price deflation.

(1) See Non-GAAP Financial Measures on page 18.

The following factors explain the major components in the change in sales for the second quarter of 2008 compared to the same period in 2007:

- same-store sales growth of 0.7%;
- a shift in Easter sales into the first quarter of 2008 resulted in lower sales and same-store sales growth of approximately 0.7% during the second quarter of 2008;
- Loblaw experienced positive volume growth based on retail units sold;
- strong gas bar sales resulting from both fuel price inflation and volume growth;
- Loblaw experienced modest internal retail food price deflation for the second quarter of 2008 although national food price inflation as measured by "The Consumer Price Index for Food Purchased from Stores" was 1.9% for the second quarter of 2008 compared to 4.0% in the same period of 2007; and
- during the second quarter of 2008, 6 new corporate and franchised stores were opened and 6 were closed, resulting in a net increase of 0.1 million square feet or 0.1%. During the latest four quarters, net retail square footage increased by 0.5 million square feet, or 0.9%, due to the opening of 30 new corporate and franchised stores, inclusive of stores that underwent conversions and major expansions, and the closure of 29 stores.

On a year-to-date basis, sales increased by 2.1%, to $13.6 billion. The following factors in addition to the quarterly factors mentioned above further explained the change in year-to-date sales over the same period in the prior year:

- same-store sales growth of 1.6%; and
- an increase in net retail square footage during the latest four quarters as noted above. In the first two quarters, 12 new corporate and franchised stores were opened, including stores which underwent conversions and major expansions, and 11 stores closed, resulting in a net increase of 0.2 million square feet or 0.3% from year end 2007.

Operating Income Operating income of $261 million for the second quarter of 2008 compared to $216 million in the same period of 2007, an increase of 20.8%. Operating margin was 3.7% for the second quarter of 2008 compared to 3.1% in 2007.

The year-over-year change in the following items influenced operating income for the second quarter of 2008 compared to the second quarter of 2007:

- a charge of $1 million (2007 – $73 million) related to restructuring and other charges; and
- income of $10 million (2007 – $11 million) related to the net effect of stock-based compensation and the associated equity forwards.

Loblaw operating income for the second quarter of 2008 as compared to the second quarter of 2007, was positively impacted by lower restructuring costs, partially offset by the decrease in net stock-based compensation income, as described in the specific items noted above. Excluding these specific items, operating margin and EBITDA margin[(1)] declined in the second quarter of 2008 as a result of Loblaw's continued targeted investments in lower retail prices to drive sales growth. Loblaw initiated significant pricing investments in the third quarter of 2007 and as a result, margins in the second quarter of 2008 were negatively impacted compared to the second quarter of 2007. Loblaw continues to focus on shrink and achieved improvements in shrink expense in the second quarter of 2008 compared to the second quarter of 2007. Sales increases in the second quarter were insufficient to offset margin declines and cost increases.

Loblaw experienced higher store labour costs in the second quarter of 2008 as a result of increased wage rates compared to the second quarter of 2007. Labour productivity remained consistent in the second quarter of 2008 compared to the same period last year but has improved on a year-to-date basis.

A $14 million gain (2007 – nil) from the sale of financial investments by *President's Choice* Bank ("*PC* Bank"), a wholly owned subsidiary of Loblaw, was reported in operating income during the second quarter of 2008.

(1) See Non-GAAP Financial Measures on page 18.

Year-to-date operating income of $414 million compared to $348 million in the same period of 2007, an increase of 19.0%. Year-to-date operating margin was 3.1% compared to 2.6% in 2007.
The year-over-year change in the following items influenced operating income for the first half of 2008 compared to the first half of 2007:

- charge of $4 million (2007 – $162 million) related to restructuring and other charges; and
- charge of $15 million (2007 – $1 million) related to the net effect of stock-based compensation and the associated equity forwards.

Also influencing year-to-date operating income for the first half of 2008 was the $14 million gain (2007 – nil) from the sale of financial investments by *PC* Bank.

EBITDA(1) increased by $42 million, or 11.9%, to $396 million in the second quarter of 2008 compared to $354 million in the second quarter of 2007. Year-to-date EBITDA(1) increased by $63 million, or 10.1%, to $685 million compared to $622 million in 2007. EBITDA margin(1) increased in the second quarter of 2008 to 5.6% from 5.1% in the comparable period of 2007. Year-to-date EBITDA margin(1) increased to 5.1% from 4.7% in the comparable period of 2007.

CONSOLIDATED FINANCIAL CONDITION

Financial Ratios The Company's net debt (excluding Exchangeable Debentures)(1) to equity ratio at the end of the second quarter of 2008 was 0.96:1 compared to 1.03:1 at the end of the same period in 2007 and to 0.96:1 at year end 2007. Equity for the purpose of calculating the net debt (excluding Exchangeable Debentures)(1) to equity ratio is defined by the Company as shareholders' equity and capital securities. The improvement in this ratio at the end of the second quarter of 2008 compared to the end of the second quarter in 2007 was mainly due to an increase in short term investments, partially offset by a net increase in short term bank loans and commercial paper.

The interest coverage ratio in the second quarter of 2008 remained unchanged at 3.1 times as compared to the second quarter of 2007. On a year-to-date basis the interest coverage ratio increased to 4.3 times in 2008 compared to 3.3 times in 2007 primarily due to higher operating income and lower interest expense and other financing charges, resulting mainly from the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares, which positively impacted the change in the year-to-date 2008 interest coverage ratio by approximately 0.9 times when compared to 2007.

For further details on the net debt (excluding Exchangeable Debentures)(1) to equity ratio and interest coverage ratio, see note 16 to the unaudited interim period consolidated financial statements.

The Company's rolling year return on average total assets(1) at the end of the second quarter of 2008 was 7.1% compared to 2.2% in the comparable period of 2007 and 6.7% at year end 2007. The Company's rolling year return on average common shareholders' equity was 13.1% at the end of the second quarter of 2008 compared to (0.6)% at the end of the second quarter of 2007 and 12.7% for the year end 2007 return. The ratios in the second quarter of 2007 were 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.

Outstanding Share Capital Weston's outstanding share capital is comprised of common shares and preferred shares. An unlimited number of common shares is authorized and 129.1 million common shares were outstanding at the end of the second quarter of 2008. An unlimited number of preferred shares Series I, Series III, Series IV and Series V is authorized and 9.4 million preferred shares Series I, 8.0 million preferred shares Series III, 8.0 million preferred shares Series IV and 8.0 million preferred shares Series V were outstanding at the end of the second quarter of 2008.

In addition, 10.6 million Preferred Shares, Series II, are authorized and were outstanding at the end of the second quarter of 2008. During the second quarter of 2008, these Preferred Shares, Series II, which were

(1) See Non-GAAP Financial Measures on page 18.

previously presented as share capital on the consolidated balance sheet, were reclassified to capital securities and are included in liabilities to conform with Section 3863, "Financial Instruments – Presentation".

During the second quarter of 2008, Weston renewed its Normal Course Issuer Bid to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its 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 price of such shares. Weston did not purchase any shares under its Normal Course Issuer Bid in the first half of 2008 or in 2007.

Further information on the Company's outstanding share capital and capital securities is provided in note 16 to the unaudited interim period consolidated financial statements.

Dividends On July 1, 2008, common share dividends of $0.36 per share and preferred share dividends of $0.32 per share for the Series II, Series III and Series IV preferred shares and dividends of $0.30 per share for the Series V preferred shares were paid as declared by Weston's Board of Directors. On June 15, 2008, preferred share dividends of $0.36 per share for the Series I preferred shares were paid as declared by the Board. The common share dividend for the second quarter of 2008 was maintained at the 2007 quarterly dividend rate.

Dividends on the preferred shares Series II are presented in interest expense and other financing charges in the consolidated statement of earnings in the second quarter of 2008.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities of Continuing Operations Second quarter 2008 cash flows from operating activities of continuing operations were $388 million compared to $638 million in the comparable period in 2007. On a year-to-date basis cash flows from operating activities of continuing operations were $108 million compared to $430 million in 2007. The decreases in cash flows from operating activities of continuing operations for the second quarter and year-to-date were mainly due to a decrease in operating income, excluding the impact of restructuring costs, in addition to the changes in non-cash working capital. The change in cash flows used in non-cash working capital for the second quarter was primarily driven by changes in inventories, and year-to-date was mainly due to changes in inventories and accounts receivable, partially offset by changes in accounts payable and accrued liabilities.

Cash Flows used in Investing Activities of Continuing Operations Second quarter 2008 cash flows used in investing activities of continuing operations were $374 million compared to cash flows used in investing activities of continuing operations of $31 million in 2007. On a year-to-date basis, cash flows used in investing activities of continuing operations were $281 million compared to $253 million in 2007. The primary reason for these changes was an increase in cash flows used in short term investments partially offset by a decrease in capital expenditures and the cash flows from the sale of the Domtar (Canada) Paper Inc. investment, which funded the retirement of the Weston 3% Exchangeable Debentures, which is included in cash flows used in financing activities. Capital investment for the second quarter amounted to $106 million (2007 – $152 million) and year-to-date 2008 amounted to $233 million (2007 – $269 million).

During the second quarter of 2008, nil (2007 – $85 million) credit card receivables were securitized and nil (2007 – $125 million) year-to-date by *PC* Bank through the sale of a portion of the total interest in these receivables to an independent trust. The securitization yielded a nominal net loss in 2007 based on the assumptions disclosed in note 12 to the consolidated financial statements for the year ended December 31, 2007 included in Weston's 2007 Annual 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 $89 million (2007 – $80 million) on a portion of the securitized amount.

Cash Flows (used in) from Financing Activities of Continuing Operations Second quarter 2008 cash flows used in financing activities of continuing operations were $276 million compared to cash flows used in financing activities of continuing operations of $317 million in 2007. This decrease was primarily due to changes in commercial paper and short term bank loans, partially offset by a net decrease in long term debt. On a year-to-date basis, cash flows from financing activities of continuing operations were $81 million compared to cash flows used in financing activities of continuing operations of $143 million in 2007. The year-to-date change in cash flows from (used in) financing activities of continuing operations was primarily due to an increase in short term bank loans partially offset by a decline in commercial paper levels and a net decrease in long term debt. The net decrease in long term debt in the second quarter and year-to-date 2008 included cash flows used in the retirement of the Weston 3% Exchangeable Debentures.

In the first quarter of 2008, Loblaw entered into an $800 million, 5-year committed credit facility, provided by a syndicate of banks, which contains certain financial covenants. This facility is the primary source of Loblaw's short term funding requirements and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates. This facility replaced a $500 million, 364-day committed credit facility which had no financial covenants and permitted borrowings having up to a 180-day term that accrued interest based on short term floating interest rates. As at June 14, 2008, $798 million was drawn on the new 5-year committed credit facility.

During the second quarter of 2008, Loblaw issued USD $300 million of fixed-rate unsecured notes in a private placement debt financing which contains certain financial covenants. The notes were issued in two equal tranches of USD $150 million with 5 and 7 year maturities at interest rates of 6.48% and 6.86% respectively. Loblaw entered into two fixed cross currency swaps to manage the foreign exchange and US interest rate risk. These cross currency swaps were designated as cash flow hedges as presented in note 15 to the unaudited interim period consolidated financial statements. The net proceeds from the issue of the notes were used to repay maturing debt obligations, including a portion of the $390 million of 6.00% Medium Term Notes ("MTN") which matured in June 2008.

During the second quarter of 2008, Loblaw filed a Short Form Base Shelf Prospectus allowing for the issue of up to $1 billion of unsecured debentures and/or preferred shares. During the second quarter, Loblaw offered by way of prospectus supplement under the 2008 Short Form Base Shelf Prospectus, a Canadian public offering of 9.0 million cumulative redeemable convertible Second Preferred Shares, Series A, at a price of $25.00 per share, to yield 5.95% per annum, for an aggregate gross amount of $225 million. Subsequent to the end of the second quarter, the offering closed and the net proceeds of $218 million were added to the general funds of Loblaw. The preferred shares have been listed and posted to trade on the Toronto Stock Exchange ("TSX") under the symbol "L.PR.A". Dominion Bond Rating Service ("DBRS") assigned a rating of Pfd-3 with a Negative trend and Standard & Poor's ("S&P") assigned a rating of P-3 (high) to Loblaw's preferred shares. Loblaw has traditionally obtained its long term financing primarily through a MTN program. Loblaw may refinance maturing long term debt, including $125 million of 5.75% MTN maturing in 2009, with MTN if market conditions are appropriate or it may consider other alternatives.

During the first quarter of 2008, Loblaw's MTN, other notes and debentures and commercial paper ratings were downgraded by DBRS and S&P. DBRS downgraded Loblaw's long term credit rating to "BBB (high)" from "A (low)" and also lowered Loblaw's short term credit rating to "R-2 (high)" from "R-1 (low)". In addition S&P downgraded Loblaw's commercial paper rating to "A-2" from "A-1 (low)".

During the second quarter of 2008, DBRS downgraded Loblaw's long term ratings to "BBB" from "BBB (high)", maintaining the Negative trend. At the same time, DBRS downgraded Loblaw's short term rating to "R-2 (middle)" from "R-2 (high)" and changed the trend to Negative from Stable.

As a result of the DBRS downgrades of the short term credit rating, Loblaw has limited access to commercial paper. However, Loblaw has secured short term funding from other sources, primarily the $800 million, 5-year committed credit facility.

During the second quarter of 2008, Weston entered into a $300 million, 5-year committed credit facility, provided by a syndicate of banks, which contains certain financial covenants. This facility is the primary source of Weston's short term funding requirements and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates. This facility replaced $300 million, 364-day revolving committed credit facility which had no financial covenants and permitted borrowings having up to a 180-day term that accrued based on short term floating interest rates. As at June 14, 2008, $257 million was drawn on the new 5-year committed credit facility.

During the first quarter of 2008, DBRS downgraded Weston's MTN and debentures to "BBB" from "BBB (high)", the short term credit rating to "R-2 (high)" from "R-1 (low)", Exchangeable Debentures to "BBB (low)" from "BBB" and the preferred shares to "Pfd-3" from "Pfd-3 (high)", all with a Stable trend. During the second quarter of 2008, Weston's long term corporate credit, commercial paper and preferred share ratings were affirmed by S&P at "BBB", "A-2" and "P-3 (high)", respectively. Weston was removed from CreditWatch with Negative Implications and the ratings outlook was changed to Negative. As a result of the DBRS downgrade of Weston's short term credit rating, Weston has limited access to commercial paper. However, Weston has secured short term financing from other sources, primarily the $300 million, 5-year committed credit facility.

Weston has traditionally obtained its long term financing primarily through a MTN program. Weston may refinance maturing long term debt, including $250 million of 5.90% MTN maturing in 2009, with MTN if market conditions are appropriate or it may consider other alternatives.

The Company's ability to obtain funding from external sources may be restricted by further downgrades in the Company's credit ratings, should the Company's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short term and long term debt requirements. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents, short term investments and security deposits, actively monitoring market conditions and diversifying its sources of funding and maturity profile.

During the second quarter of 2008, the Company exercised its right to redeem all of the remaining outstanding Weston 3% Exchangeable Debentures pursuant to the trust indenture dated June 29, 1998 by paying cash of $633.08 per each one thousand dollar principal amount of Exchangeable Debentures for $137 million plus accrued but unpaid interest of approximately $3 million, for an aggregate amount of approximately $140 million. Weston also sold its investment in Domtar (Canada) Paper Inc. for $144 million, and used these proceeds to settle its obligation under the Exchangeable Debentures. The Company recorded a gain of $7 million in operating income in the second quarter of 2008.

Free Cash Flow(1) Free cash flow(1) for the second quarter of 2008 was $205 million compared to $402 million in the second quarter of 2007. On a year-to-date basis, free cash flow(1) was negative $284 million compared to negative $5 million in 2007. The decreases in second quarter and year-to-date free cash flows were due to a decrease in cash flows from operating activities, net of a decrease in capital expenditures, compared to the prior year periods.

Independent Funding Trusts Certain independent franchisees of Loblaw 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 fixtures and equipment. These trusts are administered by a major Canadian chartered bank.

During the first quarter of 2008, Loblaw was notified that an Event of Termination of the independent funding trust agreement for Loblaw's franchisees had occurred as a result of the credit rating downgrade by DBRS of Loblaw's long term credit rating to "BBB (high)" from "A (low)". As a result of the Event of Termination, during the second quarter of 2008, Loblaw finalized an alternative financing arrangement for the independent funding trust in the form of a $475 million, 364-day revolving committed credit facility provided by a syndicate of banks.

The gross principal amount of loans issued to Loblaw's independent franchisees outstanding at the end of the second quarter of 2008 was $383 million (2007 – $417 million) including $159 million (2007 – $154 million) of loans payable by VIEs consolidated by Loblaw. 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 15% (2007 – 10%) of the principal amount of the loans outstanding at any point in time, $66 million (2007 – $44 million) as of the end of the second quarter of 2008. The standby letter of credit has not been drawn upon. This credit enhancement allows the

(1) See Non-GAAP Financial Measures on page 18.

independent funding trust to provide favourable financing terms to Loblaw's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. 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 would 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. This new alternative financing will result in a higher financing cost to the franchisees, which in turn could adversely affect operating results. The new financing structure has been reviewed and Loblaw determined there were no material implications with respect to the consolidation of VIEs.

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)

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
($ millions except where otherwise indicated)	**2008**	2007	2008	2007	2007	2006	2007	2006
Sales	**$ 7,847**	$ 7,739	$ 7,337	$ 7,221	$ 7,692	$ 7,578	$ 10,163	$ 10,085
Net earnings (loss) from continuing operations	**$ 118**	$ 129	$ 131	$ 104	$ 151	$ (428)	$ 179	$ 226
Net earnings (loss)	**$ 118**	$ 129	$ 131	$ 104	$ 151	$ (417)	$ 179	$ 226
Net earnings (loss) per common share from continuing operations ($)								
Basic and diluted	**$ 0.84**	$ 0.90	$ 0.91	$ 0.70	$ 1.07	$ (3.42)	$ 1.25	$ 1.62
Net earnings (loss) per common share ($)								
Basic and diluted	**$ 0.84**	$ 0.90	$ 0.91	$ 0.70	$ 1.07	$ (3.33)	$ 1.25	$ 1.62

Consolidated sales growth continued in the second quarter of 2008 compared to the second quarter of 2007. At Loblaw, same-store sales growth during the current quarter increased 0.7%. Sales and same-store sales growth in the second quarter of 2008 were negatively impacted by the timing of Easter, which occurred two weeks earlier in 2008, resulting in a shift in holiday sales into the first quarter of 2008 compared to the second quarter of 2007. At Weston Foods, quarterly sales growth was positively impacted by increases in pricing combined with changes in sales mix. Weston Foods quarterly sales growth was also negatively impacted by foreign currency translation. Weston Foods sales growth during the third quarter 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 significant 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 prices of Weston's and Loblaw's common shares;
- commodity derivatives fair value adjustment at Weston Foods;
- the income tax effect of the fair value adjustment of Domtar (Canada) Paper Inc. shares, net of the re-measurement of the Weston 3% Exchangeable Debentures;

- the gain on the redemption of the remaining outstanding Weston 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares;
- accounting for Weston's 2001 forward sale agreement of 9.6 million Loblaw common shares;
- the curtailment of a post-retirement plan at Weston Foods;
- Loblaw's charges related to inventory liquidation; and
- the non-cash Loblaw goodwill impairment charge in the fourth quarter of 2006.

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.

There was no change in the Company's internal controls over financial reporting that occurred during the twelve weeks ended June 14, 2008 that 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, the Company 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. During the second quarter of 2008, the Company received confirmation that the action against the Company and Loblaw has been dismissed, but the action against the trustees is ongoing. One of the trustees, an officer of Loblaw, may be entitled to indemnification from Loblaw.

In addition to the claim 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 2008

Capital Disclosures and Financial Instruments - Disclosure and Presentation

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

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 entity's objectives, policies and processes for managing capital and quantitative disclosure about what the entity regards as capital are required. For new disclosures, refer to note 16 to the unaudited interim period consolidated financial statements. The adoption of Section 1535 did not have an impact on the Company's results of operations or financial condition.

Section 3862 and Section 3863 replaced 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 derivative instruments and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. For new disclosures, refer to notes 18 and 20 to the unaudited interim period consolidated financial statements.

Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of Section 3862 and Section 3863 did not have an impact on the Company's results of operations or financial condition.

Inventories

During the first quarter of 2008, the Company also implemented Section 3031, "Inventories" ("Section 3031"), which replaced Section 3030 of the same title. Section 3031 provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. 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 may be used 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.

Upon implementation of Section 3031, a decrease in opening inventories of $67 million and a corresponding decrease of $27 million to opening retained earnings net of income taxes of $25 million and minority interest of $15 million were recorded on the consolidated balance sheet resulting mainly from the application by Loblaw of a consistent cost formula for all inventories having a similar nature and use. For further details of the specific accounting changes and related impacts, see notes 2 and 11 to the unaudited interim period consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

Goodwill and Intangible Assets

In November 2007, the CICA issued amendments to Section 1000, "Financial Statement Concepts", and Accounting Guideline 11, "Enterprises in the Development Stage", issued a new Section 3064, "Goodwill and Intangible Assets" ("Section 3064") to replace Section 3062, "Goodwill and Other Intangible Assets", withdrew Section 3450, "Research and Development Costs" and amended Emerging Issues Committee Abstract 27, "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company will implement them in the first quarter of 2009, retroactively with restatement of the comparative periods for the current and prior years. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS. The Company expects the transition to IFRS to impact financial reporting, business processes and information systems. The Company has completed a diagnostic impact assessment and has substantially completed planning activities for the initial assessment phase of the implementation project. The Company will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

OUTLOOK[1]

The consolidated results of George Weston Limited for 2008 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 operating margins to remain under pressure as the costs of key input items continue to rise. Weston Foods will focus on mitigating this cost inflation through cost reduction efforts and by managing product mix.

For the balance of the year, Loblaw will direct its efforts towards building profitable sales momentum while continuing to improve value for customers. Focus on cost and operating efficiencies will continue as margins are expected to remain under pressure.

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.

NON-GAAP FINANCIAL MEASURES

The Company reports its financial results in accordance with Canadian GAAP. It has historically also included in its Quarterly and Annual Reports certain Non-GAAP financial measures and ratios. Over the past year, the Company has reviewed its practices with respect to the disclosure of Non-GAAP financial measures. The Company considered the separate presentation of Non-GAAP financial measures taking into account the discussion in the MD&A of the results of operations and the impact of specific events on these results of operations, the disclosure practices of its industry peers and best practices.

Based on this review, the Company decided that effective the first quarter of 2008 it would discontinue its use of the following Non-GAAP financial measures: sales and sales growth excluding the impact of tobacco sales and VIEs, adjusted operating income and adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin, and adjusted basic net earnings per common share from continuing operations. The Company will continue to discuss the impact of individual specific items that are important in understanding the ongoing operations including those that relate to sales, operating income and basic net earnings per common share.

The Company will continue to use the following Non-GAAP financial measures: EBITDA and EBITDA margin, net debt, return on average total assets and free cash flow. The Company believes these Non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined 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, nor should they be construed as an alternative to other financial measures determined in accordance with Canadian GAAP.

EBITDA and EBITDA Margin The following table reconciles earnings before interest, income taxes, depreciation and amortization ("EBITDA") to Canadian GAAP net earnings reported in the unaudited interim period consolidated statements of earnings for the twelve and twenty-four week periods ended as indicated. For each of its reportable operating segments, segment EBITDA is reconciled to segment operating income. 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.

(1) To be read in conjunction with "Forward-Looking Statements".

EBITDA margin is calculated as EBITDA divided by sales.

($ millions)	12 Weeks Ended Jun. 14, 2008 Weston Foods	Loblaw	Consolidated	12 Weeks Ended Jun. 16, 2007 Weston Foods	Loblaw	Consolidated
Net earnings			**$ 118**			$ 129
Add impact of the following:						
Minority interest			**55**			43
Income taxes			**60**			54
Interest expense and other financing charges			**107**			102
Operating income	**$ 79**	**$ 261**	**$ 340**	$ 112	$ 216	$ 328
Depreciation and amortization	**26**	**135**	**161**	27	138	165
Accelerated depreciation(1)	**1**		**1**			
EBITDA	**$ 106**	**$ 396**	**$ 502**	$ 139	$ 354	$ 493

($ millions)	24 Weeks Ended Jun. 14, 2008 Weston Foods	Loblaw	Consolidated	24 Weeks Ended Jun. 16, 2007 Weston Foods	Loblaw	Consolidated
Net earnings			**$ 249**			$ 233
Add impact of the following:						
Minority interest			**78**			61
Income taxes			**136**			89
Interest expense and other financing charges			**129**			154
Operating income	**$ 178**	**$ 414**	**$ 592**	$ 189	$ 348	$ 537
Depreciation and amortization	**51**	**271**	**322**	54	274	328
Accelerated depreciation(1)	**1**		**1**	4		4
EBITDA	**$ 230**	**$ 685**	**$ 915**	$ 247	$ 622	$ 869

(1) Accelerated depreciation is included in restructuring and other charges in the consolidated statements of earnings as discussed in note 3 to the unaudited interim period consolidated financial statements.

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 and cash equivalents, short term investments and security deposits which are included in other assets and believes this measure is useful in evaluating the amount of leverage employed. The Company calculates net debt excluding Exchangeable Debentures as net debt (as calculated above) less Exchangeable Debentures and believes this measure is also useful in evaluating the amount of leverage employed by the Company as the Exchangeable Debentures can be settled by using the Company's investment in Domtar (Canada) Paper Inc.

($ millions)	**Jun. 14, 2008**	Jun. 16, 2007
Bank indebtedness	**$ 136**	$ 189
Commercial paper		744
Short term bank loans	**1,297**	198
Long term debt due within one year	**415**	434
Long term debt	**5,270**	5,593
Less: Cash and cash equivalents	**1,029**	1,034
Short term investments	**658**	326
Security deposits included in other assets	**454**	422
Net debt	**4,977**	5,376
Less: Exchangeable Debentures		247
Net debt (excluding Exchangeable Debentures)	**$ 4,977**	$ 5,129

Free Cash Flow The following table reconciles free cash flow to Canadian GAAP cash flows used in operating activities from continuing operations reported in the unaudited interim period consolidated cash flow statements for the twelve and twenty-four week periods ended 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.

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 14, 2008**	Jun. 16, 2007	**Jun. 14, 2008**	Jun. 16, 2007
Cash flows from operating activities of continuing operations	**$ 388**	$ 638	**$ 108**	$ 430
Less: Fixed asset purchases	**106**	152	**233**	269
Dividends on share capital	**77**	84	**159**	166
Free cash flow	**$ 205**	$ 402	**$ (284)**	$ (5)

Total Assets The following table reconciles total assets used in the return on average total assets to Canadian GAAP total assets reported in the unaudited interim period consolidated balance sheets as indicated. The Company believes the rolling year return on average total assets is useful in assessing the performance of its operating assets and therefore excludes cash and cash equivalents, short term investments, security deposits which are included in other assets and the Domtar (Canada) Paper Inc. investment from the total assets used in this measure.

($ millions)	**Jun. 14, 2008**	Jun. 16, 2007
Canadian GAAP total assets	**$ 18,571**	$ 18,111
Less: Cash and cash equivalents	**1,029**	1,034
Short term investments	**658**	326
Security deposits included in other assets	**454**	422
Domtar (Canada) Paper Inc. investment		247
Total assets	**$ 16,430**	$ 16,082

Consolidated Statements of Earnings
(unaudited)

($ millions except where otherwise indicated)	12 Weeks Ended Jun. 14, 2008	12 Weeks Ended Jun. 16, 2007	24 Weeks Ended Jun. 14, 2008	24 Weeks Ended Jun. 16, 2007
Sales	**$ 7,847**	$ 7,739	**$ 15,184**	$ 14,960
Operating Expenses				
Cost of sales, selling and administrative expenses	**7,343**	7,180	**14,262**	13,940
Depreciation and amortization	**161**	165	**322**	328
Restructuring and other charges (note 3)	**3**	66	**8**	155
	7,507	7,411	**14,592**	14,423
Operating Income	**340**	328	**592**	537
Interest Expense and Other Financing Charges (note 4)	**107**	102	**129**	154
Earnings Before the Following:	**233**	226	**463**	383
Income Taxes (note 6)	**60**	54	**136**	89
	173	172	**327**	294
Minority Interest	**55**	43	**78**	61
Net Earnings	**$ 118**	$ 129	**$ 249**	$ 233
Net Earnings per Common Share ($) – Basic and Diluted (note 7)	**$ 0.84**	$ 0.90	**$ 1.75**	$ 1.60

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

Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

($ millions except where otherwise indicated)	24 Weeks Ended Jun. 14, 2008	Jun. 16, 2007
Share Capital		
Preferred Shares	**$ 817**	$ 817
Common Shares	**133**	133
Total Share Capital, Beginning and End of Period	**$ 950**	$ 950
Retained Earnings, Beginning of Period	**$ 4,726**	$ 4,506
Cumulative impact of implementing new accounting standards (note 2)	**(27)**	(100)
Net earnings	**249**	233
Dividends declared		
Per common share ($) – $0.72 (2007 – $0.72)	**(93)**	(93)
Per preferred share ($) – Series I – $0.73 (2007 – $0.73)	**(7)**	(7)
– Series II – $0.64 (2007 – $0.64) (notes 4 & 16)	**(3)**	(7)
– Series III – $0.65 (2007 – $0.65)	**(5)**	(5)
– Series IV – $0.65 (2007 – $0.65)	**(5)**	(5)
– Series V – $0.60 (2007 – $0.60)	**(5)**	(5)
Retained Earnings, End of Period	**$ 4,830**	$ 4,517
Accumulated Other Comprehensive Loss, Beginning of Period	**$ (999)**	$ (503)
Cumulative impact of implementing new accounting standards (note 2)		9
Other comprehensive income (loss)	**135**	(269)
Accumulated Other Comprehensive Loss, End of Period (note 17)	**$ (864)**	$ (763)
Total Shareholders' Equity	**$ 4,916**	$ 4,704

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

Consolidated Statements of Comprehensive Income
(unaudited)

	12 Weeks Ended		24 Weeks Ended	
($ millions)	Jun. 14, 2008	Jun. 16, 2007	Jun. 14, 2008	Jun. 16, 2007
Net earnings	**$ 118**	$ 129	**$ 249**	$ 233
Other comprehensive income (loss), net of income taxes and minority interest				
Foreign currency translation adjustment	**18**	(253)	**140**	(267)
Net unrealized gain (loss) on available-for-sale financial assets	**8**	(16)	**14**	(18)
Reclassification of (gain) loss on available-for-sale financial assets to net earnings	**(8)**	(1)	**(1)**	(8)
		(17)	**13**	(26)
Net (loss) gain on derivatives designated as cash flow hedges	**(1)**	13	**(6)**	16
Reclassification of (gain) loss on derivatives designated as cash flow hedges to net earnings	**(4)**	1	**(12)**	8
	(5)	14	**(18)**	24
Other comprehensive income (loss)	**13**	(256)	**135**	(269)
Total Comprehensive Income (Loss)	**$ 131**	$ (127)	**$ 384**	$ (36)

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

Consolidated Balance Sheets

($ millions)	Jun. 14, 2008 (unaudited)	As at Jun. 16, 2007 (unaudited)	Dec. 31, 2007
ASSETS			
Current Assets			
Cash and cash equivalents (note 8)	**$ 1,029**	$ 1,034	$ 1,076
Short term investments	**658**	326	461
Accounts receivable (notes 9 & 10)	**1,228**	939	1,141
Inventories (note 11)	**2,140**	1,982	2,172
Income taxes	**95**	129	91
Future income taxes	**108**	161	121
Prepaid expenses and other assets	**89**	97	49
Total Current Assets	**5,347**	4,668	5,111
Fixed Assets	**8,931**	9,129	8,960
Goodwill and Intangible Assets (note 12)	**2,299**	2,417	2,240
Future Income Taxes	**106**	51	91
Other Assets	**1,888**	1,846	1,986
Total Assets	**$ 18,571**	$ 18,111	$ 18,388
LIABILITIES			
Current Liabilities			
Bank indebtedness	**$ 136**	$ 189	$ 85
Commercial paper		744	609
Accounts payable and accrued liabilities	**2,967**	2,839	3,322
Short term bank loans (note 14)	**1,297**	198	250
Long term debt due within one year	**415**	434	432
Current liabilities of discontinued operations	**3**	3	3
Total Current Liabilities	**4,818**	4,407	4,701
Long Term Debt (note 15)	**5,270**	5,593	5,494
Future Income Taxes	**290**	313	293
Other Liabilities	**872**	728	831
Capital securities (note 16)	**261**	260	260
Minority Interest	**2,144**	2,106	2,132
Total Liabilities	**13,655**	13,407	13,711
SHAREHOLDERS' EQUITY			
Share Capital (note 16)	**950**	950	950
Retained Earnings	**4,830**	4,517	4,726
Accumulated Other Comprehensive Loss (note 17)	**(864)**	(763)	(999)
Total Shareholders' Equity	**4,916**	4,704	4,677
Total Liabilities and Shareholders' Equity	**$ 18,571**	$ 18,111	$ 18,388

Contingencies, commitments and guarantees (note 21).

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

Consolidated Cash Flow Statements
(unaudited)

($ millions)	12 Weeks Ended Jun. 14, 2008	12 Weeks Ended Jun. 16, 2007	24 Weeks Ended Jun. 14, 2008	24 Weeks Ended Jun. 16, 2007
Operating Activities				
Net earnings before minority interest	**$ 173**	$ 172	**$ 327**	$ 294
Depreciation and amortization	**161**	165	**322**	328
Restructuring and other charges (note 3)	**3**	66	**8**	155
Future income taxes	**1**	(2)	**4**	(16)
Fair value adjustment of Weston's forward sale agreement (note 4)	**27**	32	**(24)**	13
Change in non-cash working capital	**19**	203	**(590)**	(386)
Other	**4**	2	**61**	42
Cash Flows from Operating Activities of Continuing Operations	**388**	638	**108**	430
Investing Activities				
Fixed asset purchases	**(106)**	(152)	**(233)**	(269)
Short term investments	**(365)**	183	**(172)**	(38)
Proceeds from fixed asset sales	**4**	25	**14**	34
Business acquisition (note 5)	**(10)**		**(10)**	
Domtar investment (note 15)	**144**		**144**	
Credit card receivables, after securitization (note 9)	**(42)**	(52)	**32**	92
Franchise investments and other receivables	**(2)**	6	**(20)**	(1)
Other	**3**	(41)	**(36)**	(71)
Cash Flows used in Investing Activities of Continuing Operations	**(374)**	(31)	**(281)**	(253)
Financing Activities				
Bank indebtedness	**(27)**	7	**49**	94
Commercial paper	**(18)**	(257)	**(609)**	(94)
Short term bank loans (note 14)	**85**	10	**1,047**	20
Long term debt - Issued	**296**	16	**301**	23
Long term debt - Retired (note 15)	**(535)**	(9)	**(548)**	(20)
Dividends - To common shareholders	**(47)**	(47)	**(93)**	(93)
Dividends - To preferred shareholders	**(8)**	(15)	**(22)**	(29)
Dividends - To minority shareholders	**(22)**	(22)	**(44)**	(44)
Cash Flows (used in) from Financing Activities of Continuing Operations	**(276)**	(317)	**81**	(143)
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents	**(1)**	(88)	**45**	(89)
Cash Flows (used in) from Continuing Operations	**(263)**	202	**(47)**	(55)
Cash Flows used in Discontinued Operations				(1)
Change in Cash and Cash Equivalents	**(263)**	202	**(47)**	(56)
Cash and Cash Equivalents, Beginning of Period	**1,292**	832	**1,076**	1,090
Cash and Cash Equivalents, End of Period	**$ 1,029**	$ 1,034	**$ 1,029**	$ 1,034

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, 2007, 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 2007 Annual Report.

Basis of Consolidation The unaudited interim period consolidated financial statements include the accounts of George Weston Limited (“Weston”) and its subsidiaries (collectively referred to as the “Company”) with provision for minority interest. Weston’s interest in the voting share capital of its subsidiaries is 100% except for Loblaw Companies Limited (“Loblaw”), which was 61.9% at the end of the second quarters of 2008 and 2007 and at year end 2007. In addition, the Company consolidates variable interest entities (“VIEs”) pursuant to the Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 15, “Consolidation of Variable Interest Entities”, (“AcG 15”), that are subject to control by Loblaw on a basis other than through ownership of a majority of voting interest. AcG 15 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIE’s expected losses or that entitle it to receive a majority of the VIE’s expected residual returns or both.

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

Goodwill and Intangible Assets In November 2007, the CICA issued amendments to Section 1000, "Financial Statement Concepts”, and Accounting Guideline 11, “Enterprises in the Development Stage”, issued a new Section 3064, "Goodwill and Intangible Assets" (“Section 3064”) to replace Section 3062, “Goodwill and Other Intangible Assets”, withdrew Section 3450, "Research and Development Costs” and amended Emerging Issues Committee Abstract 27, "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company will implement them in the first quarter of 2009, retroactively with restatement of the comparative periods for the current and prior year. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

International Financial Reporting Standards ("IFRS") The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS. The Company expects the transition to IFRS to impact financial reporting, business processes and information systems. The Company has completed a diagnostic impact assessment and has substantially completed planning activities for the initial assessment phase of the implementation project. The Company will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

2. Accounting Standards Implemented in 2008

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

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 external capital requirements, and if it has not complied, the consequences of such non-compliance. For new disclosures, refer to note 16. The adoption of Section 1535 did not have an impact on the Company's results of operations or financial condition.

Section 3862 and Section 3863 replaced 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 the presentation of financial instruments and non-financial derivative instruments and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. For new disclosures, refer to notes 18 and 20. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of Section 3862 and Section 3863 did not have an impact on the Company's results of operations or financial condition.

Inventories Effective January 1, 2008, the Company implemented Section 3031, "Inventories" ("Section 3031"), issued by the CICA in June 2007, which replaces Section 3030 of the same title. Section 3031 requires inventories to be measured at the lower of cost and net realizable value. 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 inventories should be based on a first-in, first-out or weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method, may be used if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amounts 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.

The Company values inventories at the lower of cost and net realizable value. Costs include the cost of purchase net of vendor allowances and other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Loblaw's seasonal general merchandise, Loblaw's inventories at distribution centres and Weston Foods inventories are measured at weighted average cost. Loblaw uses the retail method to measure the cost of certain retail store inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold less estimated costs necessary to make the sale. In addition, Loblaw estimates net realizable value by taking into consideration fluctuations of retail price due to seasonality. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period these costs are incurred.

The transitional adjustments resulting from the implementation of Section 3031 are recognized in the 2008 opening balance of retained earnings and prior periods have not been restated. Upon implementation of these requirements, a decrease in opening inventories of $67 million and a corresponding decrease of $27 million to opening retained earnings net of income taxes of $25 million and minority interest of $15 million were recorded on the consolidated balance sheet resulting mainly from the application by Loblaw of a consistent cost formula for all inventories having a similar nature and use.

In addition to the disclosure of accounting policies used in measuring inventories, Section 3031 also requires additional disclosures. See note 11 for the amount of inventories recognized as an expense in the period, the amount of inventories written down below cost and the amount of any reversal of any previously recognized write-downs.

Accounting Standards Implemented in 2007 On January 1, 2007, the Company implemented CICA Section 3855, "Financial Instruments – Recognition and Measurement", Section 3865, "Hedges", Section 1530, "Comprehensive Income", Section 3251, "Equity" and Section 3861, "Financial Instruments – Disclosure and Presentation". These standards were applied without restatement of prior periods, with the exception of the reclassification of 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 resulted in a decrease in retained earnings, net of income taxes and minority interest of $100 million and a decrease in accumulated other comprehensive loss, net of income taxes and minority interest of $9 million in 2007 as more fully described in note 2 of the annual consolidated financial statements for the year ended December 31, 2007.

3. Restructuring and Other Charges

The following tables summarize the restructuring and other charges:

	12 Weeks Ended					
			Jun. 14, 2008			Jun. 16, 2007
($ millions)	**Weston Foods**	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Accelerated depreciation	**$ 1**		**$ 1**			
Gain on sale of fixed assets				$ (8)		$ (8)
Employee termination benefits	**1**	**$ 1**	**2**		$ 52	52
Site closing and other exit costs				1	21	22
	$ 2	**$ 1**	**$ 3**	$ (7)	$ 73	$ 66

	24 Weeks Ended					
			Jun. 14, 2008			Jun. 16, 2007
($ millions)	**Weston Foods**	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Accelerated depreciation	**$ 1**		**$ 1**	$ 4		$ 4
Gain on sale of fixed assets				(14)		(14)
Fixed asset impairment	**1**		**1**			
Employee termination benefits	**3**	**$ 3**	**6**	1	$ 110	111
Site closing and other exit costs	**(1)**	**1**		2	52	54
	$ 4	**$ 4**	**$ 8**	$ (7)	$ 162	$ 155

Weston Foods

Manufacturing Assets During the second quarter of 2008, Weston Foods approved a plan to close a fresh bakery manufacturing facility in Ontario. This restructuring is expected to be completed in the fourth quarter of 2008. As a result of this restructuring plan, Weston Foods recognized $1 million of accelerated depreciation and $1 million of employee termination benefits in the second quarter of 2008.

During 2006, Weston Foods approved a restructuring plan to downsize its fresh-baked sweet goods facility in Bay Shore, New York. The plan, which is now complete, involved the transfer of full-size dessert cake and cookie production to other existing Weston Foods facilities. The Bay Shore location is now a more focused facility producing primarily danish and pie products. As a result of this restructuring plan, Weston Foods recognized an additional fixed asset impairment charge of $1 million (2007 – nil) and $2 million (2007 – nil) of additional employee termination benefits in the first quarter of 2008.

Distribution Network Restructuring During the third quarter of 2007, Weston Foods approved a plan to exit and transfer certain distribution and transportation activities in the mid-Western United States to third-party logistic providers. This plan has been completed. Weston Foods recognized income of $1 million (2007 – nil) as a result of the reversal of exit related accruals net of additional exit costs in the first quarter of 2008.

During the first half of 2008, employee termination benefits and other exit related costs of approximately $7 million (2007 – $13 million) were paid related to all Weston Foods restructuring activities. As at the end of the second quarter of 2008, the accrued liabilities relating to restructuring activities were $6 million (2007 – $9 million).

Loblaw

Project Simplify During 2007, Loblaw approved and announced the restructuring of its merchandising and store operations into more streamlined functions as part of Project Simplify. In the second quarter of 2008, Loblaw recognized nil (2007 − $70 million) restructuring costs resulting from this plan. The year-to-date charge of $3 million (2007 − $145 million) is comprised of $2 million (2007 − $110 million) for employee termination benefits including severance, additional pension costs resulting from the termination of employees and retention costs; and $1 million (2007 − $35 million) of other costs, primarily consulting directly associated with the restructuring. Cash payments in the second quarter of 2008 were $13 million (2007 − $46 million) and $30 million (2007 − $76 million) year-to-date. As at the end of the second quarter of 2008, a remaining liability of $7 million (2007 − $62 million) was recorded on the consolidated balance sheet in respect of this initiative.

Store Operations During 2007, Loblaw completed the previously announced restructuring of its store operations. In the second quarter of 2008, Loblaw recognized nil (2007 − charge of $2 million) and income of $1 million (2007 – charge of $16 million) year-to-date related to this plan. Cash payments in the second quarter of 2008 were $1 million (2007 − $9 million) and $1 million (2007 − $18 million) year-to-date. As at the end of the second quarter of 2008, a remaining liability of $2 million (2007 − $7 million) was recorded on the consolidated balance sheet in respect of this initiative.

Supply Chain Network During 2005, Loblaw approved a comprehensive plan to restructure its supply chain operations nationally. The restructuring plan is expected to be completed in 2009 and the total restructuring costs under this plan are estimated to be approximately $90 million. Of this total, approximately $57 million is attributable to employee termination benefits, which include severance and additional pension costs resulting from the termination of employees, $13 million is attributable to fixed asset impairment and accelerated depreciation of assets relating to this restructuring activity and $20 million is attributable to site closing and other costs directly related to the restructuring plan. In the second quarter of 2008, Loblaw recognized $1 million (2007 – $1 million) and $2 million (2007 − $1 million) year-to-date of restructuring costs resulting from this plan which is composed of $2 million (2007 – nil) for employee termination benefits resulting from planned involuntary terminations and nil (2007 − $1 million) for site closing and other costs. At the end of the second quarter of 2008, $9 million in estimated costs remained to be incurred and will be recognized as appropriate criteria are met. Cash payments in the second quarter of 2008 were $7 million (2007 − $3 million) and $8 million (2007 − $4 million) year-to-date. As at the end of the second quarter of 2008, a remaining liability of $27 million (2007 − $26 million) was recorded on the consolidated balance sheet in respect of this initiative.

4. Interest Expense and Other Financing Charges

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 14, 2008**	Jun. 16, 2007	**Jun. 14, 2008**	Jun. 16, 2007
Interest on long term debt	**$ 89**	$ 89	**$ 178**	$ 178
Interest (income) expense on financial derivative instruments	**(1)**	4		9
Other financing charges(1)	**21**	26	**(36)**	1
Net short term interest	**(1)**	(7)	**(3)**	(13)
Interest income on security deposits	**(2)**	(5)	**(6)**	(10)
Dividends on capital securities	**5**		**5**	
Capitalized to fixed assets	**(4)**	(5)	**(9)**	(11)
Interest expense and other financing charges	**$ 107**	$ 102	**$ 129**	$ 154

(1) Other financing charges for the second quarter and year-to-date 2008 includes a non-cash charge of $27 million (2007 – $32 million) and non-cash income of $24 million (2007 – non-cash charge of $13 million), respectively, related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares. The fair value adjustment of the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw common shares that Weston owns. Weston does not record any change in the market price associated with the Loblaw common shares it owns. Any cash paid under the forward contract could be offset by the sale of Loblaw common shares. Also included in other financing charges for the second quarter and year-to-date 2008 is forward accretion income of $10 million and $20 million (2007 – $9 million and $19 million), respectively, net of the forward fee of $4 million and $8 million (2007 – $3 million and $7 million), respectively, associated with Weston's forward sale agreement.

As more fully described in note 16, dividends on capital securities are presented in interest expense and other financing charges in the consolidated statement of earnings in the second quarter of 2008 and onwards.

During the second quarter and year-to-date 2008, net interest expense of $93 million and $178 million, respectively, was recorded related to the financial assets and financial liabilities not classified as held-for-trading.

Interest paid in the second quarter of 2008 was $138 million (2007 – $138 million) and interest received was $35 million (2007 – $44 million). Year-to-date 2008 interest paid was $286 million (2007 – $276 million) and interest received was $92 million (2007 – $86 million).

5. Business Acquisition

During the second quarter of 2008, Weston purchased a frozen bakery manufacturing facility in Ontario, Canada for cash consideration of $10 million. The acquisition was accounted for using the purchase method of accounting. The fair value of the net assets acquired has been estimated to consist of $1 million of inventories and $10 million of fixed assets, net of current liabilities of $1 million. The purchase price allocation will be finalized by the end of the third quarter of 2008.

6. Income Taxes

The effective income tax rate in the second quarter of 2008 increased to 25.8% compared to 23.9% in the second quarter of 2007 and year-to-date 2008 increased to 29.4% compared to 23.2% in 2007, primarily due to an increase in income tax accruals relating to certain income tax matters and a change in the proportions of taxable income earned across different tax jurisdictions, which were partially offset by lower Canadian federal and certain provincial statutory income tax rates relative to the prior year periods.

Net income taxes paid in the second quarter and year-to-date 2008 were $14 million and $115 million (2007 – $68 million and $152 million), respectively.

7. Basic and Diluted Net Earnings per Common Share

	12 Weeks Ended		24 Weeks Ended	
($ millions except where otherwise indicated)	**Jun. 14, 2008**	Jun. 16, 2007	**Jun. 14, 2008**	Jun. 16, 2007
Net earnings	**$ 118**	$ 129	**$ 249**	$ 233
Prescribed dividends on preferred shares in share capital	**(10)**	(13)	**(23)**	(26)
Net earnings available to common shareholders	**$ 108**	$ 116	**$ 226**	$ 207
Weighted average common shares outstanding (in millions)	**129.1**	129.1	**129.1**	129.1
Dilutive effect of stock-based compensation (in millions)[(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 ($)	**$ 0.84**	$ 0.90	**$ 1.75**	$ 1.60

(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:

	12 Weeks Ended		24 Weeks Ended	
Option Exercise Price	**Jun. 14, 2008**	Jun. 16, 2007	**Jun. 14, 2008**	Jun. 16, 2007
$49.88	**3,013**		**3,013**	
$72.21	**687,892**		**687,892**	
$75.62	**4,135**		**4,135**	
$78.85		81,168		81,168
$93.35	**504,595**	536,251	**504,595**	536,251
$95.88	**30,130**	100,130	**30,130**	100,130
$100.00	**129,400**	129,400	**129,400**	129,400
$111.02	**497,201**	529,342	**497,201**	529,342

8. Cash and Cash Equivalents

The components of cash and cash equivalents as at June 14, 2008, June 16, 2007 and December 31, 2007 were as follows:

		As at	
($ millions)	**Jun. 14, 2008**	Jun. 16, 2007	Dec. 31, 2007
Cash	**$ 112**	$ 92	$ 110
Cash equivalents - short term investments with a maturity of 90 days or less			
Bank term deposits	**93**	90	119
Government treasury bills	**395**	305	456
Government-sponsored debt securities	**206**	305	177
Corporate commercial paper	**223**	120	214
Bank-sponsored asset-backed commercial paper		122	
Cash and cash equivalents	**$ 1,029**	$ 1,034	$ 1,076

During the second quarter, the Company recognized an unrealized foreign currency exchange gain of $17 million (2007 – loss of $151 million), as a result of translating its United States dollar denominated cash and cash equivalents, short term investments and security deposits, which are included in other assets, of which a loss of $1 million (2007 – loss of $88 million) related to cash and cash equivalents. Loblaw recognized an unrealized foreign currency exchange gain of $9 million (2007 – loss of $79 million) as a result of translating its United States dollar denominated cash and cash equivalents, short term investments and security deposits which are included in other assets, of which a loss of $3 million (2007 – loss of $42 million) related to cash and cash equivalents. The remaining foreign currency exchange gain of $8 million (2007 – loss of $72 million), of which $2 million (2007 – loss of $46 million) relates to the translation of cash and cash equivalents held by Weston's self-sustaining foreign operations, is recognized in accumulated other comprehensive loss.

Year-to-date 2008, the unrealized foreign currency exchange gain as a result of translating United States dollar denominated cash and cash equivalents, short term investments and security deposits which are included in other assets, was $90 million (2007 – loss of $154 million), $45 million (2007 – loss of $89 million) of which related to cash and cash equivalents. Loblaw recognized an unrealized foreign currency exchange gain of $42 million (2007 – loss of $79 million) as a result of translating its United States dollar denominated cash and cash equivalents, short term investments and security deposits which are included in other assets, of which $16 million (2007 – loss of $42 million) related to cash and cash equivalents. The remaining foreign currency exchange gain of $48 million (2007 – loss of $75 million) of which $29 million (2007 – loss of $47 million) relates to the translation of cash and cash equivalents held by Weston's self-sustaining foreign operations, is recognized in accumulated other comprehensive loss.

The Loblaw gain or loss on cash and cash equivalents, short term investments and security deposits is partially offset in operating income and accumulated other comprehensive loss by the unrealized foreign currency exchange loss or gain on Loblaw's cross currency basis swaps.

9. Accounts Receivable

During the second quarter of 2008, nil (2007 – $85 million) credit card receivables were securitized, nil (2007 – $125 million) year-to-date by *President's Choice* Bank ("*PC* Bank"), a wholly owned subsidiary of Loblaw, through the sale of a portion of the total interest in these receivables to an independent trust. The securitization yielded a nominal net loss in 2007 based on the assumptions disclosed in note 12 of the annual consolidated financial statements for the year ended December 31, 2007. 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 $89 million (2007 – $80 million) on a portion of the securitized amount. Other receivables consist mainly of receivables from Loblaw's independent franchisees, associated stores and independent accounts and receivables from Weston Foods customers.

		As at	
($ millions)	**Jun. 14, 2008**	Jun. 16, 2007	Dec. 31, 2007
Credit card receivables	**$ 1,980**	$ 1,599	$ 2,023
Amount securitized	**(1,475)**	(1,375)	(1,475)
Net credit card receivables	**505**	224	548
Other receivables	**723**	715	593
Accounts receivable	**$ 1,228**	$ 939	$ 1,141

Credit card receivables that are past due of $10 million as at June 14, 2008 are not classified as impaired as they are less than 90 days past due and most receivables are reasonably expected to remedy the past due status. Any credit card receivable balances with a payment that is contractually 180 days in arrears or where the likelihood of collection is considered remote are written-off. Concentration of credit risk with respect to receivables is limited due to the Company's customer base being diverse. Credit risk on the credit card receivables is managed as described in note 24 of the annual consolidated financial statements for the year ended December 31, 2007. Other receivables that are past due but not impaired totaled $68 million as at June 14, 2008, of which a nominal amount were more than 60 days past due.

10. Allowances for Receivables

The allowance for receivables recorded on the consolidated balance sheets is maintained at a level which is considered adequate to absorb credit related losses on credit card receivables and losses on other receivables. The receivables for *PC* Bank credit card, Loblaw associated stores and independent accounts and Weston Foods customers are presented net of allowances on the consolidated balance sheet. The allowance for Loblaw receivables from independent franchisees is recorded in accounts payable and accrued liabilities on the consolidated balance sheet. A continuity of the Company's allowances for receivables is as follows:

Credit Card Receivables

	12 Weeks Ended		24 Weeks Ended		Year Ended
($ millions)	**Jun. 14, 2008**	Jun. 16, 2007	**Jun. 14, 2008**	Jun. 16, 2007	Dec. 31, 2007
Allowances at beginning of period	**$ (13)**	$ (12)	**$ (13)**	$ (11)	$ (11)
Provision for losses	**(10)**	(2)	**(12)**	(5)	(11)
Recoveries	**(2)**	(1)	**(4)**	(3)	(7)
Write-offs	**12**	2	**16**	6	16
Allowances at end of period	**$ (13)**	$ (13)	**$ (13)**	$ (13)	$ (13)

Other Receivables

	12 Weeks Ended		24 Weeks Ended		Year Ended
($ millions)	**Jun. 14, 2008**	Jun. 16, 2007	**Jun. 14, 2008**	Jun. 16, 2007	Dec. 31, 2007
Allowances at beginning of period	**$ (57)**	$ (70)	**$ (62)**	$ (67)	$ (67)
Provision for losses	**(23)**	(28)	**(32)**	(47)	(86)
Write-offs	**16**	25	**31**	41	87
Impact of foreign currency translation		1	**(1)**	1	4
Allowances at end of period	**$ (64)**	$ (72)	**$ (64)**	$ (72)	$ (62)

11. Inventories

	As at
($ millions)	**Jun. 14, 2008**
Raw materials and supplies	**$ 60**
Finished goods	**2,080**
Inventories	**$ 2,140**

The cost of inventories recognized as an expense during the second quarter of 2008 and year-to-date were $5,889 million and $11,308 million, respectively, which includes the effect of commodity derivatives that are entered into.

The cost of inventories recognized as an expense during the second quarter of 2008 and year-to-date includes $22 million and $33 million, respectively, for the write-down of inventories below cost to net realizable value. There was no reversal of previous write-downs of inventories.

12. Goodwill and Intangible Assets

				As at	
	Weston		**Jun. 14, 2008**	Jun. 16, 2007	Dec. 31, 2007
($ millions)	**Foods**	**Loblaw**	**Total**		
Goodwill, beginning of period	**$ 887**	**$ 946**	**$ 1,833**	$ 2,055	$ 2,055
Goodwill, acquired during the period		**1**	**1**	11	8
Adjusted purchase price allocation					(67)
Other					4
Impact of foreign currency translation	**40**		**40**	(90)	(167)
Goodwill, end of period	**927**	**947**	**1,874**	1,976	1,833
Trademarks and brand names[(1)]	**412**		**412**	427	394
Other intangible assets	**13**		**13**	14	13
Goodwill and intangible assets	**$ 1,352**	**$ 947**	**$ 2,299**	$ 2,417	$ 2,240

(1) The balance includes the positive impact of foreign currency translation of $19 million (2007 – negative impact of $38 million) and amortization of $1 million (2007 – $1 million).

13. Employee Future Benefits

The Company's total net benefit plan cost recognized in operating income was $55 million and $111 million (2007 – $60 million and $122 million) for the second quarter and year-to-date of 2008. 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.

14. Short Term Bank Loans

During the second quarter of 2008, Weston entered into a $300 million, 5-year committed credit facility, provided by a syndicate of banks, which contains certain financial covenants (see note 16). This facility is the primary source of Weston's short term funding requirements and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates. This facility replaced a $300 million, 364-day revolving committed credit facility which had no financial covenants and permitted borrowings having up to a 180-day term that accrued interest based on short term floating interest rates. As at June 14, 2008, $257 million was drawn on the new 5-year committed credit facility.

In the first quarter of 2008, Loblaw entered into an $800 million, 5-year committed credit facility, provided by a syndicate of banks, which contains certain financial covenants (see note 16). This facility is the primary source of Loblaw's short term funding requirements and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates. This facility replaced a $500, million 364-day committed credit facility which had no financial covenants and permitted borrowings having up to a 180-day term that accrued interest based on short term floating interest rates. As at June 14, 2008, $798 million was drawn on the new 5-year committed credit facility.

Also included in short term bank loans are Weston's Series B debentures, due on demand, of $242 million (June 16, 2007 – $198 million; December 31, 2007 – $220 million) and $30 million which was drawn on Weston's $300 million, 364-day revolving credit facility as at December 31, 2007.

15. Long Term Debt

During the second quarter of 2008, the Company exercised its right to redeem all of the outstanding Exchangeable Debentures pursuant to the trust indenture dated June 29, 1998 made between Weston and Computershare Trust Company of Canada by paying cash of $633.08 per each $1,000 principal amount of Exchangeable Debentures for $137 million plus accrued but unpaid interest of approximately $3 million, for an aggregate amount including interest of approximately $140 million. Weston also sold its investment in Domtar (Canada) Paper Inc. for $144 million, and used these proceeds to settle its obligation under the Exchangeable Debentures. The Company recorded a gain of $7 million in operating income in the second quarter of 2008.

During the second quarter of 2008, Loblaw issued USD $300 million of fixed-rate unsecured notes in a private placement debt financing which contains certain financial covenants (see note 16). The notes were issued in two equal tranches of USD $150 million with 5 and 7 year maturities at interest rates of 6.48% and 6.86%, respectively. Loblaw entered into two fixed cross currency swaps designated as cash flow hedges to manage the foreign exchange risk. The ineffective portion of the gains or losses on the derivatives within these hedging relationships was insignificant. For further information on the Company's policies with respect to cash flow hedges, refer to note 1 of the annual consolidated financial statements for the year ended December 31, 2007.

During the second quarter of 2008, Loblaw's $390 million 6.00% Medium Term Note ("MTN") due June 2, 2008 matured and was repaid.

16. Capital Management

The Company defines capital as net debt (excluding Exchangeable Debentures), shareholders' equity and capital securities.

The Company's objectives when managing capital are to:

- ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- maintain financial capacity and access to capital to support future development of the business;
- minimize the cost of its capital while taking into consideration current and future industry, market and economic risks and conditions; and
- utilize short term funding sources to manage its working capital requirements and long term funding sources to match the long term nature of the fixed assets of the business.

The following ratios are used by the Company to monitor its capital:

($ millions)	**Jun. 14, 2008**	Jun. 16, 2007	Dec. 31, 2007
Interest coverage	**4.3**	3.3	5.9
Net debt (excluding Exchangeable Debentures) to equity	**0.96:1**	1.03:1	0.96:1

Interest coverage is calculated as operating income divided by interest expense and other financing charges adding back interest capitalized to fixed assets for the 24 weeks ended June 14, 2008 and June 16, 2007 and for the year ended December 31, 2007. The Company manages debt on a net basis calculated as outlined below. The Company's internal guideline targets a net debt (excluding Exchangeable Debentures) to equity ratio of less than 1:1. Equity for the purpose of calculating the net debt (excluding Exchangeable Debentures) to equity ratio is defined by the Company as shareholders' equity and capital securities. This ratio is useful in assessing the amount of leverage employed. These ratios are also calculated from time-to-time on an alternative basis by management to approximate the methodology of debt rating agencies and other market participants.

Debt The components of net debt (excluding Exchangeable Debentures) are as follows:

		As at	
($ millions)	**Jun. 14, 2008**	Jun. 16, 2007	Dec. 31, 2007
Bank indebtedness	**$ 136**	$ 189	$ 85
Commercial paper		744	609
Short term bank loans	**1,297**	198	250
Long term debt due within one year	**415**	434	432
Long term debt	**5,270**	5,593	5,494
Less: Cash and cash equivalents	**1,029**	1,034	1,076
Short term investments	**658**	326	461
Security deposits included in other assets	**454**	422	419
Net debt	**4,977**	5,376	4,914
Less: Exchangeable Debentures		247	157
Net debt (excluding Exchangeable Debentures)	**$ 4,977**	$ 5,129	$ 4,757

The Company monitors its credit ratings as it seeks access to capital as part of the Company's goal to maintain financial capacity and access to capital markets. The Company's ability to obtain funding from external sources may be restricted by a downgrade in the Company's credit ratings, should the Company's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short term and long term debt requirements. The Company mitigates these risks by actively maintaining appropriate levels of cash and cash equivalents, short term investments and security deposits included in other assets, actively monitoring market conditions and diversifying its capital sources and maturity profile.

During the second quarter of 2008, Loblaw filed a Short Form Base Shelf Prospectus allowing for the issue of up to $1 billion of unsecured debentures and/or preferred shares. Subsequent to the end of the second quarter of 2008, Loblaw issued 9.0 million of the 12.0 million authorized 5.95% non-voting Second Preferred Shares, Series A, with a face value of $225 million for net proceeds of $218 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.4875 per share per annum which will, if declared, be payable quarterly. On and after July 31, 2013, Loblaw may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 31, 2013 at $25.75 per share, together with all accrued and unpaid dividends to but not including the redemption date
On or after July 31, 2014 at $25.50 per share, together with all accrued and unpaid dividends to but not including the redemption date
On or after July 31, 2015 at $25.00 per share, together with all accrued and unpaid dividends to but not including the redemption date

On and after July 31, 2013, Loblaw may, at its option, convert these preferred shares into that number of common shares of Loblaw determined by dividing the then applicable redemption price, together with all accrued and unpaid dividends to but not including the conversion date, by the greater of $2.00 and 95% of the then current market price of the common shares. On and after July 31, 2015, these outstanding preferred shares are convertible at the option of the holder, into that number of common shares of Loblaw determined by dividing $25.00, together with all accrued and unpaid dividends to but not including the conversion date, by the greater of $2.00 and 95% of the then current market price of the common shares. This option is subject to Loblaw's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers. These preferred shares will be classified as other financial liabilities, in accordance with Section 3855, and measured using the effective interest method.

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 second quarter of 2008. An unlimited number of preferred shares Series I, Series III, Series IV and Series V are authorized and 9.4 million preferred shares Series I, 8.0 million preferred shares Series III, 8.0 million preferred shares Series IV and 8.0 million preferred shares Series V were outstanding at the end of the second quarter of 2008.

In addition, Weston has 10.6 million 5.15% non-voting Preferred Shares, Series II authorized and outstanding, with a face value of $265 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.2875 per share per annum which will, if declared, be payable quarterly. On and after April 1, 2009, Weston may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at $25.00 per share, together with all accrued but unpaid dividends to but not including the redemption date. On and after July 1, 2009, these outstanding preferred shares are convertible at the option of the holder, into that number of Weston's common shares determined by dividing $25.00, together with accrued and unpaid dividends to but not including the conversion date, by the greater of $2.00 and 95% of the then current market price of Weston's common shares. This option is subject to Weston's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers. At any time after issuance, Weston may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston. During the second quarter of 2008, these Preferred Shares, Series II, which were previously presented as share capital on the consolidated balance sheet, were reclassified to capital securities and are included in liabilities to conform with Section 3863, "Financial Instruments – Presentation".

Further information on the Company's outstanding share capital is provided in note 21 to the annual consolidated financial statements for the year ended December 31, 2007.

At quarter end, a total of 2,074,115 stock options were outstanding and represented 1.6% of the Company's issued and outstanding common share capital. Pursuant to guidelines set by the Company, the number of stock option grants is limited to a maximum of 5% of the issued and outstanding common shares at any time. The Company is currently in compliance with this internal guideline.

During the second quarter of 2008, Weston renewed its Normal Course Issuer Bid ("NCIB") to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its 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 price of such shares. Weston did not purchase any shares under its NCIB in the first half of 2008 or in 2007.

Dividends The declaration and payment of dividends and the amount thereof are at the discretion of the Board. Over the long term, the Company's objective is for its common share dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share adjusted as appropriate for items which are not regarded to be reflective of ongoing operations giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During the second quarter of 2008, the Board declared dividends as follows:

($)	Declared per Share
Common shares	$ 0.36
Preferred shares – Series I	$ 0.36
– Series II	$ 0.32
– Series III	$ 0.32
– Series IV	$ 0.32
– Series V	$ 0.30

Dividends on the Preferred Shares, Series II are presented in interest expense and other financing charges in the consolidated statement of earnings in the second quarter of 2008.

Covenants and Regulatory Requirements The committed credit facility which Loblaw entered into during the first quarter of 2008 and the committed credit facility entered into by Weston during the second quarter of 2008 are subject to certain covenants (see note 14). Under the USD $300 million private placement notes, Loblaw is also subject to certain financial covenants (see note 15). As at the end of the second quarter of 2008, both Loblaw and Weston were in compliance with these covenants.

Loblaw is also subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), as the primary regulator of *PC* Bank, and the Central Bank of Barbados, as the primary regulator of Glenhuron Bank Limited ("Glenhuron"), both wholly-owned subsidiaries of the Company. *PC* Bank's capital management objectives are to maintain a consistently strong capital position while considering the Bank's economic risks and to meet all regulatory capital requirements as defined by OSFI. A new regulatory capital management framework, Basel II, has been implemented in Canada that establishes regulatory capital requirements that are more sensitive to a bank's risk profile. *PC* Bank met all applicable capital targets as at the end of the second quarter of 2008. Glenhuron is currently regulated under Basel I. Under Basel I, Glenhuron's assets are risk weighted and the minimum ratio of capital to risk weighted assets is 8.0%. Glenhuron's ratio of capital to risk weighted assets met the minimum requirements under Basel I as at the end of the second quarter of 2008.

In addition, a wholly-owned subsidiary of the Company that engages in insurance activities exceeded the minimum capital and surplus requirements as at the end of the second quarter of 2008.

17. Accumulated Other Comprehensive Loss

The following tables provide further detail regarding the composition of accumulated other comprehensive loss:

24 Weeks Ended Jun. 14, 2008 ($ millions)	Foreign currency translation adjustment	Available-for-sale assets	Cash flow hedges	Total
Balance, beginning of period	$ (1,011)	$ (2)	$ 14	$ (999)
Foreign currency translation adjustment	140			140
Net unrealized gain on available-for-sale financial assets(1)		14		14
Reclassification of gain on available-for-sale financial assets(2)		(1)		(1)
Net loss on derivatives designated as cash flow hedges(3)			(6)	(6)
Reclassification of gain on derivatives designated as cash flow hedges(4)			(12)	(12)
Balance, end of period	$ (871)	$ 11	$ (4)	$ (864)

(1) Net of income taxes of $3 million and minority interest of $8 million.
(2) Net of income taxes recovered of $5 million and minority interest of nil.
(3) Net of income taxes of $4 million and minority interest of $6 million.
(4) Net of income taxes recovered of $1 million and minority interest of $7 million.

24 Weeks Ended Jun. 14, 2007 ($ millions)	Foreign currency translation adjustment	Available-for-sale assets	Cash flow hedges	Total
Balance, beginning of period	$ (503)			$ (503)
Cumulative impact of implementing new accounting standards(1)		$ 13	$ (4)	9
Foreign currency translation adjustment	(267)			(267)
Net unrealized loss on available-for-sale financial assets(2)		(18)		(18)
Reclassification of gain on available-for-sale financial assets(3)		(8)		(8)
Net gain on derivatives designated as cash flow hedges(4)			16	16
Reclassification of loss on derivatives designated as cash flow hedges(5)			8	8
Balance, end of period	$ (770)	$ (13)	$ 20	$ (763)

(1) Net of income taxes recovered of $1 million and minority interest of $6 million.
(2) Net of income taxes of $1 million and minority interest of $11 million.
(3) Net of income taxes of nil and minority interest of $5 million.
(4) Net of income taxes of $2 million and minority interest of $10 million.
(5) Net of income taxes of a nominal amount and minority interest of $5 million.

See note 22 of the annual consolidated financial statements for the year ended December 31, 2007 for a continuity of accumulated other comprehensive loss for the year ended December 31, 2007.

An estimated net loss of $1 million, net of income taxes and minority interest, recorded in accumulated other comprehensive loss related to cash flow hedges as at June 14, 2008 is expected to be reclassified to net earnings during the next 12 months. This will be offset by the available-for-sale financial assets that are hedged. Remaining amounts will be reclassified to net earnings over periods up to 7 years.

The change in the cumulative foreign currency translation adjustment from year end 2007 decreased accumulated other comprehensive loss by $140 million (2007 – increased accumulated other comprehensive loss by $267 million). This change was due to the positive (2007 – negative) impact of translating the Company's investment in self-sustaining foreign operations due to the depreciation (2007 – appreciation) of the Canadian dollar relative to the United States dollar during the first half of 2008.

18. Fair Values of Financial Instruments

The following tables provide a comparison of carrying and fair values for each classification of financial instruments as at June 14, 2008, June 16, 2007 and December 31, 2007:

As at June 14, 2008

($ millions)	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits included in other assets			$ 1,764	$ 377			$ 2,141	$ 2,141
Derivatives included in accounts receivable	$ 4	$ 12					16	16
Other receivables					$ 1,212		1,212	1,212
Other financial assets included in other assets					197		197	197
Available-for-sale securities included in other assets				11			11	11
Derivatives included in other assets	110	521					631	631
Total financial assets	$ 114	$ 533	$ 1,764	$ 388	$ 1,409		$ 4,208	$ 4,208
Short term borrowings						$ 1,433	$ 1,433	$ 1,433
Accounts payable and accrued liabilities						2,967	2,967	2,967
Long term debt						5,685	5,685	5,249
Derivatives included in other liabilities		$ 230					230	230
Capital securities						261	261	267
Total financial liabilities		$ 230				$ 10,346	$ 10,576	$ 10,146

The equity investment in Loblaw franchises is measured at cost of $71 million because there are no quoted market prices in an active market and these investments are classified as available-for-sale. Loblaw has no intention of disposing of these equity investments.

As at June 16, 2007

($ millions)	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits included in other assets			$ 1,304	$ 478			$ 1,782	$ 1,782
Derivatives included in accounts receivable	$ 1	$ 14					15	15
Other receivables					$ 924		924	924
Other financial assets included in other assets			247		161		408	408
Available-for-sale securities included in other assets				13			13	13
Derivatives included in other assets	140	273					413	413
Total financial assets	$ 141	$ 287	$ 1,551	$ 491	$ 1,085		$ 3,555	$ 3,555
Short term borrowings						$ 1,131	$ 1,131	$ 1,131
Accounts payable and accrued liabilities						2,839	2,839	2,839
Long term debt						6,027	6,027	6,306
Derivatives included in other liabilities		$ 55					55	55
Capital securities						260	260	273
Total financial liabilities		$ 55				$ 10,257	$ 10,312	$ 10,604

The equity investment in Loblaw franchises is measured at cost of $78 million because there are no quoted market prices in an active market and these investments are classified as available-for-sale. Loblaw has no intention of disposing of these equity investments.

As at Dec. 31, 2007

($ millions)	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits included in other assets			$ 1,512	$ 444			$ 1,956	$ 1,956
Derivatives included in accounts receivable	$ 1	$ 20					21	21
Other receivables					$ 1,120		1,120	1,120
Other financial assets included in other assets			157		185		342	342
Available-for-sale securities included in other assets				16			16	16
Derivatives included in other assets	184	466					650	650
Total financial assets	$ 185	$ 486	$ 1,669	$ 460	$ 1,305		$ 4,105	$ 4,105
Short term borrowings						$ 944	$ 944	$ 944
Accounts payable and accrued liabilities						3,322	3,322	3,322
Long term debt						5,926	5,926	5,870
Derivatives included in other liabilities		$ 203					203	203
Capital securities						260	260	270
Total financial liabilities		$ 203				$ 10,452	$ 10,655	$ 10,609

The equity investment in Loblaw franchises is measured at cost of $75 million because there are no quoted market prices in an active market and these investments are classified as available-for-sale. Loblaw has no intention of disposing of these equity investments.

The following tables summarize the change in fair value of financial assets and financial liabilities, including non-financial derivatives, classified as held-for-trading, recognized in net earnings:

($ millions)	12 Weeks Ended Jun. 14, 2008 Designated as held-for-trading	12 Weeks Ended Jun. 14, 2008 Required to be classified as held-for-trading	12 Weeks Ended Jun. 16, 2007 Designated as held-for-trading	12 Weeks Ended Jun. 16, 2007 Required to be classified as held-for-trading
Cash equivalents, short term investments and security deposits included in other assets	**$ (6)**		$ 35	
Retained interest				
Electricity forward		**$ (1)**		$ (2)
Embedded currency derivative				
Interest rate swaps		**(4)**		
Cross currency basis swaps		**12**		(33)
Equity forward sale agreement based on 9.6 million Loblaw common shares		**17**		23
Commodity derivatives fair value adjustment		**32**		(12)
Equity swaps and forwards associated with stock-based compensation		**(18)**		(24)
Exchangeable shares of Domtar (Canada) Paper Inc.(1)	**(19)**		(20)	
Fair value (gain) loss	**$ (25)**	**$ 38**	$ 15	$ (48)

(1) The impact of this fair value adjustment in operating income, which was recorded prior to the sale of the Domtar (Canada) Paper Inc. shares, is substantially offset by the re-measurement of the Exchangeable Debentures.

($ millions)	24 Weeks Ended Jun. 14, 2008 Designated as held-for-trading	24 Weeks Ended Jun. 14, 2008 Required to be classified as held-for-trading	24 Weeks Ended Jun. 16, 2007 Designated as held-for-trading	24 Weeks Ended Jun. 16, 2007 Required to be classified as held-for-trading
Cash equivalents, short term investments and security deposits included in other assets	**$ (28)**		$ 35	
Retained interest	**(1)**		1	
Electricity forward		**$ (3)**		$ (5)
Embedded currency derivative		**2**		
Interest rate swaps		**2**		
Cross currency basis swaps		**30**		(33)
Equity forward sale agreement based on 9.6 million Loblaw common shares		**(44)**		(6)
Commodity derivatives fair value adjustment		**8**		(12)
Equity swaps and forwards associated with stock-based compensation		**24**		(5)
Exchangeable shares of Domtar (Canada) Paper Inc.(1)	**8**		(46)	
Fair value (gain) loss	**$ (21)**	**$ 19**	$ (10)	$ (61)

(1) The impact of this fair value adjustment in operating income, which was recorded prior to the sale of the Domtar (Canada) Paper Inc. shares, is substantially offset by the re-measurement of the Exchangeable Debentures.

19. Stock-Based Compensation

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

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 14, 2008**	Jun. 16, 2007	**Jun. 14, 2008**	Jun. 16, 2007
Stock option plans / share appreciation right plan expense	**$ 2**	$ 3	**$ 2**	$ 3
Equity derivatives (gain) loss	**(20)**	(26)	**19**	(11)
Restricted share unit plan expense	**5**	6	**4**	10
Net stock-based compensation (income) expense	**$ (13)**	$ (17)	**$ 25**	$ 2

Stock Option Plan During the second quarter of 2008, Weston granted 3,013 (2007 – 4,135) stock options with an exercise price of $49.88 (2007 – $75.62) per common share and during the first quarter, Weston granted 219,349 (2007 – 689,192) stock options with an exercise price of $46.24 (2007 – $72.21) per common share. Weston also paid the share appreciation value of nil (2007 – $0.5 million) on the exercise of nil (2007 – 21,965) stock options and share appreciation rights. In addition, 90,568 (2007 – 90,009) stock options and share appreciation rights were forfeited or cancelled during the first half of 2008.

Loblaw granted 8,800 (2007 – 38,938 and 148,987) stock options with an exercise price of $33.10 (2007 – $46.01 and $50.80) per common share during the second quarter of 2008 and 3,303,557 (2007 – 3,885,439) stock options with an exercise price of $28.95 (2007 – $47.44) per common share during the first quarter of 2008. Loblaw paid the share appreciation value of nil (2007 – a nominal amount) on the exercise of nil (2007 – 108,000) stock options. In addition, 1,591,944 (2007 – 752,024) stock options were forfeited or cancelled during the first half of 2008.

At the end of the second quarter of 2008 a total of 2,074,115 (2007 – 2,069,618) Weston stock options were outstanding, which represented approximately 1.6% (2007 – 1.6%) of Weston's issued and outstanding common shares. The stock options 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 30,447 (2007 – 3,463) RSUs in the second quarter of 2008 and 27,732 (2007 – 32,636) RSUs in the first quarter of 2008. In addition 6,079 (2007 – 8,982) RSUs were cancelled and 115,928 (2007 – 4,002) RSUs were settled in cash in the amount of $6 million (2007 – a nominal amount) during the first half of 2008.

Under its existing RSU plan, Loblaw granted 45,321 (2007 – 10,925) RSUs in the second quarter of 2008, and 352,268 (2007 – 281,818) RSUs in the first quarter of 2008. In addition, 55,106 (2007 – 83,605) RSUs were cancelled and 233,655 (2007 – 86,316) were settled in cash in the amount of $8 million (2007 – $4 million) during the first half of 2008.

At the end of the second quarter of 2008, a total of 226,531 (2007 – 322,026) Weston and 877,515 (2007 – 872,774) Loblaw RSUs were outstanding.

20. Risk Management

The Company is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The Company's risk management practices are more fully described in note 24 of the annual consolidated financial statements for the year ended December 31, 2007. The following is a description of those risks and how the exposures are managed:

Credit Risk The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations, or if there is a concentration of transactions carried out with the same counterparty or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. Exposure to credit risk relates to derivative instruments, cash equivalents, short term investments, security deposits included in other assets, *PC* Bank's credit card receivables and accounts receivable from independent franchisees, associated stores and independent accounts and amounts receivable from Weston Foods customers and suppliers.

The Company may be exposed to losses if a counterparty to the Company's financial or non-financial derivative agreements fails to fulfill its obligations.

The Company's maximum exposure to credit risk as it relates to derivative instruments is represented by the positive fair value of the derivatives on the balance sheet (see note 18).

See note 9 for additional information on the credit quality performance of *PC* Bank's credit card receivables, Loblaw accounts receivable from independent franchisees, associated stores and independent accounts and Weston Foods customers.

Market Risk Market risk is the loss that may arise from changes in market factors such as interest rates, foreign currency exchange rates, commodity prices and common share prices.

Interest Rate Risk The Company is exposed to interest rate risk, which it manages through the use of interest rate swaps. The Company's interest rate risk arises from the issuance of MTNs, private placement notes included in long term debt, short term debt and commercial paper net of its cash and cash equivalents, short term investments and security deposits included in other assets. The Company manages fluctuations in its interest expense through its exposure to a mix of fixed and variable interest rates.

The Company estimates that a 100 basis point increase (decrease) in interest rates, with all other variables held constant, would result in an increase (decrease) of $5 million to interest expense and other financing charges.

Foreign Currency Exchange Rate Risk Loblaw is exposed to foreign currency exchange rate variability primarily on its United States dollar denominated cash and cash equivalents, short term investments, security deposits included in other assets and private placement notes included in long term debt. To manage its foreign currency exchange rate exposure, Loblaw enters into cross currency basis swaps. As a result, a significant strengthening (weakening) of the Canadian dollar against the US dollar, with all other variables held constant, would have no significant impact on net earnings before income taxes and minority interest.

Commodity Price Risk The Company is exposed to increases in the prices of commodities. To manage this exposure, Loblaw uses purchase commitments for a portion of its needs for certain consumer products that may be commodities based and Loblaw expects to take delivery of these consumer products in the normal course of business. A non-financial derivative contract with a notional value of $29 million is used to hedge electricity price risk for a portion of Loblaw's expected electricity consumption in Alberta. In addition, the Company uses exchange traded futures and options to manage its anticipated exposure to fluctuations in commodity prices. The Company estimates that a 10% increase (decrease) in relevant commodity prices, with all other variables held constant, would result in a net gain (loss) of $22 million on net earnings before income taxes and minority interest.

Common Share Price Risk Weston and Loblaw enter into equity derivatives to manage exposure to fluctuations in stock-based compensation cost as a result of changes in the market prices of the respective underlying common shares. The equity derivatives allow for various methods of settlement including net settlement. These derivatives change in value as the market prices of the respective underlying common shares change and provide a partial offset to fluctuations in stock-based compensation cost, including RSU plan expense. The partial offset between stock-based compensation costs, including RSU plan expense, and the equity derivatives is effective when the market price of the respective underlying common shares exceeds the exercise price of the related employee stock options. When the market price of the respective underlying common shares is lower than the exercise price of the related employee stock options, only RSUs will provide a partial offset to these equity derivatives. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised stock options and RSUs and their vesting schedules relative to the number of respective underlying common shares on the equity derivatives and the level of and fluctuations in the market price of the respective underlying common shares. A one dollar increase (decrease) in the market value of the respective underlying shares of the equity swaps and forwards, with all other variables held constant, would result in a gain (loss) of $6 million in net earnings before income taxes and minority interest.

Weston's equity forward sale agreement based on 9.6 million Loblaw common shares which matures in 2031 will be settled in cash as follows: Weston will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of Weston under this forward is secured by the underlying Loblaw common shares. Weston entered into this forward to partially offset any repayment risk associated with its Series A, 7.00% and Series B Debentures. Further, if the market value of the underlying Loblaw common shares exceeds the obligation of Weston under this forward, a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity. At maturity, if the forward price is greater than the market price, Weston will receive a cash amount equal to the difference. If the forward price is less than the market price, Weston will pay a cash amount equal to the difference. A one dollar increase (decrease) in the market value of the underlying shares of the equity forward, with all other variables held constant, would result in a loss (gain) of $10 million in net earnings before income taxes and minority interest. Any cash paid under the forward contract could be offset by the sale of Loblaw common shares.

Liquidity Risk Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company attempts to meet liquidity requirements by holding assets that can be readily converted into cash, and by managing cash flows.

The Company's ability to obtain funding from external sources may be restricted by further downgrades in the Company's credit ratings and should the Company's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short term and long term debt requirements. The Company mitigates these risks by actively maintaining appropriate levels of cash and cash equivalents, short term investments and security deposits included in other assets, actively monitoring market conditions and diversifying its sources of funding and maturity profile.

The following are the undiscounted contractual maturities of significant financial liabilities as at June 14, 2008:

($ millions)	2008 Remaining	2009	2010	2011	2012	Thereafter	Total
Interest rate swaps payable(1)	$ 8	$ 13	$ 13	$ 13	$ 13	$ 5	$ 65
Equity swaps and forwards associated with stock-based compensation(2)			207	36	26	163	432
Long term debt including fixed interest payments(3)	189	737	636	952	257	8,238	11,009
Capital securities		265					265
	$ 197	$ 1,015	$ 856	$ 1,001	$ 296	$ 8,406	$ 11,771

(1) Based on the pay fixed interest which will be partially offset by the floating interest received.
(2) Based on the average cost base as at June 14, 2008.
(3) Based on the maturing face values and annual interest for each instrument as well as annual payment obligations for VIEs, mortgages and capital leases.

The Company's bank indebtedness, commercial paper, short term bank loans and accounts payable and accrued liabilities are short term in nature, and as such are all due within the next 12 months.

21. Contingencies, Commitments and Guarantees

Guarantees – Independent Funding Trusts Certain independent franchisees of Loblaw 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 fixtures and equipment. These trusts are administered by a major Canadian chartered bank.

During the first quarter of 2008, Loblaw was notified that an Event of Termination of the independent funding trust agreement for its franchisees had occurred as a result of the credit rating downgrade by Dominion Bond Rating Service of Loblaw's long term credit rating to "BBB (high)" from "A (low)". As a result of the Event of Termination, during the second quarter of 2008, Loblaw finalized an alternative financing arrangement for the independent funding trust in the form of a $475 million, 364-day revolving committed credit facility provided by a syndicate of banks.

The gross principal amount of loans issued to the Loblaw's independent franchisees outstanding at the end of the second quarter of 2008 was $383 million (2007 – $417 million) including $159 million (2007 – $154 million) of loans payable by VIEs consolidated by Loblaw. 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 15% (2007 – 10%) of the principal amount of the loans outstanding at any point in time, $66 million (2007 – $44 million) as of the end of the second quarter of 2008. The standby letter of credit has not been drawn upon. This credit enhancement allows the independent funding trust to provide favourable financing terms to Loblaw's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. 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 would 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. This new alternative financing structure has been reviewed and Loblaw determined there were no material 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 Loblaw.

Legal Proceedings During the first quarter of 2007, the Company 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. During the second quarter of 2008, the Company received confirmation that the action against the Company and Loblaw has been dismissed, but the action against the trustees is ongoing. One of the trustees, an officer of Loblaw, may be entitled to indemnification from Loblaw.

In addition to the claim 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.

22. Comparative Information

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

Security deposits, which were previously presented as cash and cash equivalents and short term investments on the consolidated balance sheet, are now included in other assets on the consolidated balance sheet and totaled $454 million (June 16, 2007 – $422 million; December 31, 2007 – $419 million) as at June 14, 2008. These securities represent government treasury bills and treasury notes and government-sponsored debt securities that wholly-owned subsidiaries of the Company are required to place with counterparties as collateral to enter into and maintain outstanding swaps and forwards and insurance activities. The amount of the required security deposits will fluctuate.

As disclosed in note 16, the Preferred Shares, Series II, which were previously presented as share capital on the consolidated balance sheet are now presented as capital securities and are included in liabilities and totaled $261 million (June 16, 2007 – $260 million; December 31, 2007 – $260 million) as at June 14, 2008.

23. 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 2007 Annual Report. The Company measures each segment's performance based on operating income. No segment is reliant on any single external customer.

	12 Weeks Ended		24 Weeks Ended	
($ millions)	**Jun. 14, 2008**	Jun. 16, 2007	**Jun. 14, 2008**	Jun. 16, 2007
Sales				
Weston Foods	**$ 1,024**	$ 1,004	**$ 2,037**	$ 2,065
Loblaw	**7,037**	6,933	**13,564**	13,280
Intersegment	**(214)**	(198)	**(417)**	(385)
Consolidated	**$ 7,847**	$ 7,739	**$ 15,184**	$ 14,960
Operating Income				
Weston Foods	**$ 79**	$ 112	**$ 178**	$ 189
Loblaw	**261**	216	**414**	348
Consolidated	**$ 340**	$ 328	**$ 592**	$ 537

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, 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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Weston

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