Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("GWL") and its subsidiaries (collectively, the "Company") should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes on pages 61 to 141 of this Annual Report. The Company's consolidated financial statements and the accompanying notes for the year ended December 31, 2011 are the first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). The consolidated financial statements include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars.

The information in this MD&A is current to February 29, 2012, unless otherwise noted. A Glossary of terms and ratios used throughout this Annual Report can be found beginning on page 146.

1. FORWARD-LOOKING STATEMENTS

This Annual Report, including this 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. These forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management. In this Annual Report, forward-looking statements include the Company's expectations that:

For Weston Foods:

- sales growth will be modest;
- commodity and input costs in the first half of 2012 will be higher than the comparable period in 2011, putting increased pressure on operating margins in the first half of 2012 when compared to the same period in 2011; and
- efforts will be made to achieve full year operating margins in line with those in 2011.

For Loblaw Companies Limited ("Loblaw"):

- its capital expenditures in 2012 will be approximately $1.1 billion;
- there will be incremental costs related to investments in information technology ("IT") and supply chain in 2012, as well as continued investment in Loblaw's customer proposition; and
- full year 2012 operating income will be down year-over-year, with more pressure in the first half of the year, as a result of Loblaw's expectation that operations will not cover the incremental costs related to the investments in IT and supply chain and its customer proposition.

For the Company:

- full year 2012 adjusted basic net earnings per common share(1) will be down year-over-year.

These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events. They also reflect management's current assumptions regarding the risks and uncertainties referred to below and their respective impact on the Company. In addition, the Company's expectation with regard to Weston Foods' operating margins in 2012 is based in part on the assumptions that there will be no significant unanticipated increase in the price of commodities and other input costs that Weston Foods will not be able to offset through pricing, improved efficiencies and ongoing cost reduction initiatives. The Company's expectation with regard to Loblaw's operating income in 2012 is based in part on the assumptions that Loblaw achieves its plan to increase net retail square footage by 1% and there are no unexpected adverse events or costs related to Loblaw's investments in IT and supply chain. The Company's expectation with regard to adjusted basic net earnings per common share(1) in 2012 is based in part on the assumption that interest rates, tax rates and the Company's ownership interest in Loblaw will be similar to those in 2011.

(1) See non-GAAP financial measures beginning on page 54.

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, including, but not limited to:

- failure to realize sales growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including investments in the Company's IT systems and the Company's IT systems implementation, or unanticipated results from these initiatives;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business;
- unanticipated results associated with the Company's strategic initiatives and the impact of acquisitions or dispositions of businesses on the Company's future revenues and earnings;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- changes in economic conditions including the rate of inflation or deflation, changes in interest and foreign currency exchange rates and changes in derivative and commodity prices;
- public health events;
- risks associated with product defects, food safety and product handling;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements which could lead to work stoppages;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure by the Company to maintain appropriate records to support its compliance with accounting, tax or legal rules, regulations and policies;
- the availability and increased costs relating to raw materials, ingredients and utilities, including electricity and fuel;
- failure of the Company's franchise stores to perform as expected;
- reliance on the performance and retention of third-party service providers including those associated with the Company's supply chain and apparel business;
- supply and quality control issues with vendors;
- changes to or failure to comply with laws and regulations affecting the Company and its businesses, including changes to the regulation of generic prescription drug prices and the reduction of reimbursement under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- changes in the Company's income, commodity, other tax and regulatory liabilities including changes in tax laws, regulations or future assessments;
- any requirement of the Company to make contributions to its registered funded defined benefit pension plans or the multi-employer pension plans in which it participates in excess of those currently contemplated;
- the risk that the Company would experience a financial loss if its counterparties fail to meet their obligations in accordance with the terms and conditions of their contracts with the Company; and
- the inability of the Company to collect on its credit card receivables.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. 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. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Enterprise Risks and Risk Management section of this MD&A. 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 Annual 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.

2. OVERVIEW

George Weston Limited is a Canadian public company, founded in 1882, engaged in food processing and distribution. The Company has two reportable operating segments: Loblaw and Weston Foods, and holds cash and short term investments. The Loblaw operating segment, which is operated by Loblaw Companies Limited and its subsidiaries, is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial products and services. The Weston Foods operating segment is a leading fresh and frozen baking company in Canada and is engaged in frozen baking in the United States and biscuit manufacturing in Canada and the United States.

3. VISION

The Company's vision is to achieve long term, stable growth in its operating segments through customer focus and innovation. The Company is committed to making prudent capital investments while maintaining a strong balance sheet with the goal of providing sustainable returns to its shareholders over the long term through a combination of common share price appreciation and dividends.

The Company believes that to be successful over the long term, it must deliver on what its customers and consumers want today and in the future. The Company encourages innovation in order to provide consumers with new products and convenient services at competitive prices that meet consumers' everyday household needs.

Looking ahead, the Company plans to achieve these goals by focusing on its long term operating and financial strategies as discussed below.

4. OPERATING AND FINANCIAL STRATEGIES

To be successful in achieving its vision, the Company employs various operating and financial strategies. The Company engages in strategic acquisitions and dispositions when it is in the best long term interests of its shareholders to do so.

Each of the Company's two reportable operating segments has its own risk profile and operating risk management strategies.

Weston Foods' mission is to be recognized by its customers as providing the best bakery solutions in North America.

This will be achieved by focusing on innovation, cost management and continuous process improvement while exceeding customer and consumer expectations through superior service and product quality.

Weston Foods' long term operating strategies include:

- maintaining customer alignment;
- focusing on brand development including introducing innovative new products to meet the taste, nutritional and dietary needs of consumers;
- optimizing plant and distribution networks including capital investment to strategically position facilities to support growth and enhance quality, productivity and efficiencies;
- realizing ongoing cost reduction initiatives with the objective of ensuring a low cost operating structure and economies of scale;
- completing strategic acquisitions and developing relationships to broaden market penetration and expand geographic presence; and
- building leadership talent.

Loblaw's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices.

Loblaw is committed to providing Canadians with a wide range of products and services to meet the everyday household demands of Canadian consumers. Loblaw is known for the quality, innovation and value of its food offering. It offers Canada's strongest control (private) label program, including the unique *President's Choice*, *no name* and *Joe Fresh* brands. In addition, Loblaw, through its subsidiaries, makes available to consumers *President's Choice Financial* services and offers the *PC* points loyalty program.

In 2012, Loblaw will focus on initiatives that build on its competitive position of its businesses and invest in opportunities to support long term profitability. At the same time, Loblaw will continue to move forward with its IT systems initiatives. Plans for 2012 include:

- exceeding customer expectations with the right assortment, improved customer in-store experience and competitive prices;
- rolling out the remaining supply chain system implementations, including the warehouse management and forecasting, planning and replenishment systems;

- completing significant milestones in the implementation of the IT system with the first store targeted to go live on the system late in 2012;
- capitalizing on its established control brands across food and general merchandise;
- revisiting the store portfolio across formats and strategically investing in new square footage; and
- focusing on the financial services business by creating in-store customer awareness and expanding product offerings.

The Company's financial strategies include:
- maintaining a strong balance sheet;
- minimizing the risks and costs of operating and financing activities; and
- maintaining liquidity and access to capital markets.

The success of these and other plans and strategies discussed in this MD&A may be affected by risks and uncertainties, including those described in Section 12, "Enterprise Risks and Risk Management", of this MD&A.

GWL's Board of Directors ("Board") and senior management meet at least annually to review the Company's business strategy. The business strategy, which generally addresses a three to five year time frame, targets specific issues in response to the Company's performance and changes in consumer needs and the competitive landscape.

The Company believes that if it successfully implements and executes the business strategy in support of its long term operating and financial strategies, it will be well positioned to fulfill its vision of providing sustainable value to its shareholders over the long term.

5. KEY PERFORMANCE INDICATORS

The Company continuously reviews and monitors its activities and key performance indicators, which it believes are important to measuring the success of the implementation of its operating and financial strategies. Some of the Company's key financial performance indicators are set out below:

Key Financial Performance Indicators(1)

As at or for the years ended December 31	**2011**	2010
Sales growth	**1.7%**	0.1%(3)
Operating income ($ millions)	**$ 1,609**	$ 1,568
Operating margin	**5.0%**	4.9%
Adjusted EBITDA(2) ($ millions)	**$ 2,459**	$ 2,342
Adjusted EBITDA margin(2)	**7.6%**	7.4%
Net earnings attributable to shareholders of the Company ($ millions)	**$ 635**	$ 452
Basic net earnings per common share ($)	**$ 4.58**	$ 3.16
Adjusted basic net earnings per common share(2) ($)	**$ 4.86**	$ 4.09
Working capital ($ millions)	**$ 3,355**	$ 2,390
Cash flows from operating activities ($ millions)	**$ 1,974**	$ 2,279
Adjusted debt(2) ($ millions)	**$ 5,960**	$ 6,228
Adjusted debt(2) to adjusted EBITDA(2)	**2.4x**	2.7x
Adjusted debt(2) to equity attributable to shareholders of the Company	**1.09**	1.19
Adjusted net debt(2) ($ millions)	**$ 1,722**	$ 900
Free cash flow(2) ($ millions)	**$ 1,051**	$ 967
Interest coverage(2)	**4.4x**	3.3x
Return on average net assets(2)	**12.8%**	13.0%
Return on average common shareholders' equity attributable to shareholders of the Company	**13.1%**	8.4%

(1) For financial definitions and ratios refer to the Glossary beginning on page 146.
(2) See non-GAAP financial measures beginning on page 54.
(3) Compared to 2009 sales reported under Canadian GAAP.

Due to the Company's transition to IFRS, effective January 1, 2011, all 2010 comparative figures that were previously reported in the consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP") have been restated to conform with IFRS. See note 34 on page 124 of the consolidated financial statements for further information on the transition to IFRS and its impact on the Company's financial position and financial performance.

Effective 2011, the Company is using three new non-GAAP financial measures: adjusted basic net earnings per common share(1), adjusted operating income(1) and adjusted EBITDA(1). Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company's underlying operating performance. These non-GAAP financial measures exclude the impact of certain items and are used internally when analyzing consolidated and segment underlying operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis. Adjusted operating income(1) and adjusted EBITDA(1) exclude restructuring and other charges, a commodity derivatives fair value adjustment at Weston Foods, foreign currency translation gains and losses, the impact of share-based compensation net of equity derivatives, net insurance proceeds recorded by Weston Foods, a gain related to the sale of a portion of a Loblaw property and the effect of certain prior years' commodity tax matters at Loblaw. Adjusted basic net earnings per common share(1) also exclude the impact of the accounting for Weston Holdings Limited's ("WHL"), a subsidiary of GWL, forward sale agreement for 9.6 million Loblaw common shares and the impact of federal tax legislation changes. See Section 18, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

Selected Financial Ratios
The Company's adjusted debt(1) to adjusted EBITDA(1) ratio of 2.4 times was lower than the 2010 ratio of 2.7 times. The decrease was primarily due the repayment by Loblaw of its $350 million, 6.50% Medium Term Notes ("MTN") and the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares.

The Company's return on average common shareholders' equity attributable to shareholders of 13.1% was higher than the 2010 return of 8.4%. The increase was primarily due to the increase in net earnings available to common shareholders and the impact of the accrual of the $1.0 billion special one-time common share dividend in 2010.

In addition to key financial performance indicators, other operating performance indicators include but are not limited to: same-store sales growth; operating and administrative cost management; new product development; customer service ratings; production waste; production efficiencies; and market share.

(1) See non-GAAP financial measures beginning on page 54.

6. OVERALL FINANCIAL PERFORMANCE

6.1 CONSOLIDATED RESULTS OF OPERATIONS

As at or for the years ended December 31 ($ millions except where otherwise indicated)	2011	2010
Sales	**$ 32,376**	$ 31,847
Operating income	**$ 1,609**	$ 1,568
Operating margin	**5.0%**	4.9%
Adjusted operating income[1]	**$ 1,700**	$ 1,659
Adjusted operating margin[1]	**5.3%**	5.2%
Net interest expense and other financing charges	**$ 366**	$ 471
Income taxes	**$ 324**	$ 394
Net earnings attributable to shareholders of the Company	**$ 635**	$ 452
Net earnings	**$ 919**	$ 703
Basic net earnings per common share ($)	**$ 4.58**	$ 3.16
Adjusted basic net earnings per common share[1] ($)	**$ 4.86**	$ 4.09
Adjusted EBITDA[1]	**$ 2,459**	$ 2,342
Adjusted EBITDA margin[1]	**7.6%**	7.4%
Adjusted debt[1]	**$ 5,960**	$ 6,228
Adjusted net debt[1]	**$ 1,722**	$ 900

(1) See non-GAAP financial measures beginning on page 54.

Over the past two years, the Weston Foods operating segment was impacted by the following trends and key factors:

- continuing consumer focus on healthier, more nutritious and value-added products that do not sacrifice great taste. This impacted Weston Foods sales mix and product innovation focus resulting in the introduction of new whole grain products, nutritionally enhanced white breads, premium products such as artisan bakery offerings, reduced sodium and fat, no trans fat products, products free of artificial additives and alternative and international products, including flatbreads;
- continuing growth in the alternate format retail food channels. Weston Foods continues to grow with these alternate formats while retaining its strong position in conventional supermarkets;
- economic uncertainty, low consumer confidence and a highly competitive retail landscape results in a difficult sales environment, where driving volume growth and recovering cost inflation through pricing remains challenging;
- although cost pressures somewhat eased in 2010, they significantly increased in the second half of 2011 for certain key inputs, while cost escalation continued in labour and related benefit costs; and
- the acquisition of Keystone Bakery Holdings, LLC ("Keystone") and ACE Bakery Ltd. ("ACE") in 2010.

Over the past two years, Weston Foods increased its investment in its brands, continued to introduce new products in response to changing consumer eating preferences, and invested capital to support growth and enhance quality and productivity. These investments, coupled with a continued focus on cost improvement and customer service, resulted in strong financial performance.

With a continued focus on its infrastructure renewal programs and strengthening its customer proposition, in 2011, Loblaw:

- successfully realigned its Retail segment into a two division structure – conventional and discount – to better serve the distinct needs of its customers;
- completed the transition of all merchandising product category listings onto the new IT system, which involved the clean-up of master data, with no significant impact on its customers;
- continued to roll out supply chain system implementations, which were largely completed at the end of 2011;

- strategically invested in its store network, renovating and revitalizing 121 stores and opening 19 net new stores, including three new conventional stores, that included a new urban format represented by its flagship Loblaws store at Maple Leaf Gardens®;
- invested in growth opportunities, with the opening of 11 new *Joe Fresh* free standing stores, including five new locations in the United States, and increasing *President's Choice Financial* MasterCard® applications by over 50% compared to 2010;
- continued to innovate its control label products, including the introduction of the new black label line of *PC* products, a collection of fine foods sourced from around the world;
- improved overall control label profitability; and
- improved labour productivity by rolling out a new Store Time and Attendance system to approximately 150 stores and transitioning certain Ontario conventional stores to the new more cost effective and efficient operating terms of collective agreements that were ratified in 2010.

The Company's 2011 adjusted basic net earnings per common share(1) were $4.86 compared to $4.09 in 2010, an increase of $0.77. The increase was primarily attributable to the improvements in the operating performance of the Company's two operating segments, Weston Foods and Loblaw, and decreases in both net interest expense and other financing charges and income tax expense.

Sales

The Company's 2011 consolidated sales increased 1.7% to $32.4 billion from $31.8 billion in 2010.

Consolidated sales growth for 2011 was impacted by each reportable operating segment as follows:

- Positively by 0.5% due to the sales increase of 9.1%, supported by volume growth of 5.5%, at Weston Foods. The acquisition of Keystone and ACE positively impacted sales growth and volume growth by approximately 8.5% and 6.4%, respectively, while foreign currency translation negatively impacted sales by approximately 1.8%. Excluding the impact of acquisitions and foreign currency translation, sales increased by 2.4% due to the positive impact of higher pricing across key product categories of 3.3%, partially offset by a decrease in volume of 0.9%. Price increases were implemented during 2011 to mitigate higher commodity and fuel costs.

- Positively by 1.3% due to the sales increase of 1.3% at Loblaw. Same-store retail sales growth was 0.9% (2010 – 0.6% decline). Sales growth in food was modest, sales in drugstore declined marginally, gas bar sales growth was strong, sales in general merchandise, excluding apparel, declined moderately and sales in apparel increased moderately. Loblaw experienced moderate average annual internal food price inflation during 2011, which was lower than the average annual national food price inflation of 4.2% (2010 – 1.0%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). Loblaw sales in 2011 were also positively impacted by an increase in Financial Services segment revenue driven by higher interchange income as a result of higher credit card transaction values and higher *PC* Telecom revenue resulting from the launch of the new Mobile Shop kiosks in the fourth quarter of 2011, partially offset by lower credit card interest revenue due to increased customer payment rates and more stringent credit risk management policies.

Operating Income

The Company's 2011 consolidated operating income was $1,609 million compared to $1,568 million in 2010, an increase of $41 million, or 2.6%. Consolidated operating margin in 2011 was 5.0% compared to 4.9% in 2010. The Company's consolidated adjusted operating income(1) was $1,700 million compared to $1,659 million in 2010, an increase of $41 million or 2.5%. Consolidated adjusted operating margin(1) was 5.3% in 2011 compared to 5.2% in 2010.

(1) See non-GAAP financial measures beginning on page 54.

The Company's year-over-year change in consolidated adjusted operating income[(1)] was impacted by each of its reportable operating segments as follows:

- Positively by 1.8% due to an increase of 12.8% in adjusted operating income[(1)] at Weston Foods. Adjusted operating income[(1)] was positively impacted by sales growth mainly as a result of higher pricing in key product categories and the bakery acquisitions, and by the benefits realized from productivity improvements and other cost reduction initiatives, which were partially offset by higher commodity and fuel costs and the continued escalation in labour and related benefit costs. Weston Foods adjusted operating income[(1)] excludes restructuring and other charges, a commodity derivatives fair value adjustment, the impact of share-based compensation net of equity derivatives and net insurance proceeds. See Section 18, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.
- Positively by 0.7% due to an increase of 0.8% in adjusted operating income[(1)] at Loblaw. The increase in adjusted operating income[(1)] and adjusted operating margin[(1)] was mainly attributable to continued labour, supply chain and other operating cost efficiencies, growth and performance of Loblaw's franchisees, improved control label profitability and improved shrink, partially offset by increases in promotional pricing programs and fuel costs, the incremental costs related to the investments in IT and supply chain, the continued investment in the growth of Loblaw's Financial Services segment, foreign exchange losses, start up costs associated with the launch of Loblaw's *Joe Fresh* brand in the United States, costs associated with the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms under collective agreements ratified in 2010 and fixed asset impairment charges net of recoveries. Included in 2010 operating income were ratification costs associated with the Ontario collective agreements. Loblaw adjusted operating income[(1)] excludes other charges, the impact of share-based compensation net of equity derivatives, the effect of certain prior years' commodity tax matters and a gain related to the sale of a portion of a property. See Section 18, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

The Company's consolidated adjusted EBITDA margin[(1)] increased to 7.6% from 7.4% in 2010. The margin was positively impacted by both Weston Foods and Loblaw when compared to 2010.

Net Interest Expense and Other Financing Charges

Net interest expense and other financing charges decreased in 2011 by $105 million to $366 million compared to 2010, primarily due to an $80 million decrease in the non-cash charge related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares (see notes 4 and 28 to the consolidated financial statements for additional information).

Excluding the impact of the fair value adjustment, net interest expense and other financing charges decreased by $25 million compared to 2010 as a result of lower interest expense on long term debt and an increase in net interest income on Loblaw financial derivative instruments, partially offset by a decrease in short term interest income due to lower cash and short term investment balances. The decrease in interest expense on long term debt was primarily due to the repayment by Loblaw of its $350 million, 6.50% MTN in the first quarter of 2011, partially offset by an increase in interest expense as a result of issuances under President's Choice Bank's ("PC Bank") Guaranteed Investment Certificate ("GIC") program and an increase in capital lease interest charges.

Income Taxes

The Company's 2011 effective income tax rate decreased to 26.1% from 35.9% in 2010. The decrease in the effective income tax rate when compared to 2010 was primarily due to the decrease in non-deductible items, a decrease in income tax expense related to certain prior year income tax matters, reductions in the federal and Ontario statutory income tax rates and non-taxable foreign currency translation gains recorded in 2011 (2010 – non-deductible foreign currency translation losses). Changes in federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options resulted in a charge of $18 million which was recorded in income tax expense in the fourth quarter of 2010.

(1) See non-GAAP financial measures beginning on page 54.

In August 2011, the Department of Finance released legislative proposals relating to the taxation of Canadian corporations with foreign affiliates whereby the Company (excluding Loblaw) will no longer be able to recognize a net tax benefit on realized foreign currency losses recognized by its foreign affiliates to the extent such losses cannot be offset against realized foreign currency gains. As at December 31, 2011, the Company (excluding Loblaw) had $8 million in current tax assets relating to realized foreign currency losses that will be expensed once the proposals are substantively enacted.

Net Earnings Attributable to Shareholders of the Company
Net earnings attributable to shareholders of the Company for 2011 were $635 million compared to $452 million and basic net earnings per common share were $4.58 compared to $3.16 in 2010.

Adjusted basic net earnings per common share[(1)] for 2011 increased to $4.86 compared to $4.09 in 2010. The increase was primarily attributable to the improvements in the operating performance of the Company's two operating segments, Weston Foods and Loblaw, and decreases in both net interest expense and other financing charges and income tax expense. Adjusted basic net earnings per common share[(1)] excludes restructuring and other charges, a commodity derivatives fair value adjustment at Weston Foods, foreign currency translation gains and losses, the impact of share-based compensation net of equity derivatives, net insurance proceeds recorded by Weston Foods, a gain related to the sale of a portion of a Loblaw property, the effect of certain prior years' commodity tax matters at Loblaw, the impact of the accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares and the impact of federal tax legislation changes.

Changes in non-controlling interests did not have a significant impact on the growth of the Company's net earnings attributable to shareholders of the Company over the past two years. GWL's ownership of Loblaw was 63.0% as at the end of 2011 (2010 – 62.9%; 2009 – 62.5%). GWL's ownership of Loblaw has been impacted over the past two years by its participation in Loblaw's Dividend Reinvestment Program ("DRIP") and by other changes in Loblaw's common share equity.

During 2011, Loblaw issued 938,984 (2010 – 3,620,906) common shares to GWL under the DRIP. During 2011, the Loblaw Board of Directors approved the discontinuance of the DRIP following the dividend payment on April 1, 2011. The DRIP raised approximately $330 million in total Loblaw common share equity since 2009.

6.2 CONSOLIDATED FINANCIAL CONDITION

		As at	
($ millions except where otherwise indicated)	**Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010
Working capital[(2)]	**$ 3,355**	$ 2,390	$ 3,994
Adjusted net debt[(1)]	**$ 1,722**	$ 900	$ 651

For the years ended December 31 ($ millions except where otherwise indicated)		**2011**	2010
Dividends declared per share ($)	– Common share	**$ 1.44**	$ 9.19[(3)]
	– Preferred share:		
	Series I	**$ 1.45**	$ 1.45
	Series III	**$ 1.30**	$ 1.30
	Series IV	**$ 1.30**	$ 1.30
	Series V	**$ 1.19**	$ 1.19

(1) See non-GAAP financial measures beginning on page 54.
(2) For financial definitions refer to the Glossary beginning on page 146.
(3) Includes a special one-time common share dividend of $7.75 per common share.

Working Capital
The Company's working capital was $3,355 million as at year end 2011 compared to $2,390 million as at year end 2010. The increase of $965 million was primarily due to a decrease in long term debt due within one year due to the repayments by *Eagle Credit Card Trust ("Eagle")* of $500 million Series 2006-I notes and the repayments of MTNs by both GWL and Loblaw, partially offset by an increase in short term debt due to PC Bank's securitization of an additional $370 million in credit card receivables.

The Company's working capital was $2,390 million as at year end 2010 compared to $3,994 million as at January 1, 2010, on transition to IFRS. The decrease of $1,604 million was primarily due to the accrual of the $1.0 billion special one-time common share dividend in 2010, an increase in long term debt due within one year due to the 2011 maturity of MTNs at both GWL and Loblaw and the cash consideration paid relating to the acquisition of Keystone and ACE in 2010. The decrease was partially offset by PC Bank's repurchase of $690 million of securitized co-ownership interests which decreased credit card receivables and short term debt.

Adjusted Net Debt(1)
The Company's adjusted net debt(1) was $1,722 million as at December 31, 2011 compared to $900 million as at December 31, 2010. The increase of $822 million was primarily due to a reduction in cash as a result of the payment of dividends, including the $1.0 billion special one-time common share dividend in January 2011, fixed asset purchases and interest and income taxes paid. This increase was partially offset by cash inflows from operating activities driven by adjusted EBITDA(1).

The Company's adjusted net debt(1) was $900 million as at December 31, 2010 compared to $651 million as at January 1, 2010 on the Company's transition to IFRS. The increase of $249 million was primarily due to fixed asset purchases, dividend payments and the acquisition of Keystone and ACE by Weston Foods. This increase was partially offset by positive cash inflows from operating activities driven by adjusted EBITDA(1).

Outstanding Share Capital and Capital Securities
GWL's outstanding share capital is comprised of common shares and preferred shares. The following table details the authorized and outstanding common shares and preferred shares:

		Authorized	Outstanding
Common shares		Unlimited	128,188,843
Preferred shares	– Series I	10,000,000	9,400,000
	– Series II	10,600,000	
	– Series III	10,000,000	8,000,000
	– Series IV	8,000,000	8,000,000
	– Series V	8,000,000	8,000,000

GWL may, at its option, redeem for cash, in whole or in part, the preferred shares Series I, Series III, Series IV and Series V outstanding on or after the redemption dates specified by the terms of each series of preferred shares. GWL may at any time after issuance give the holders of these preferred shares the right, at the option of the holder, to convert the holder's preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

Further information on GWL's outstanding share capital is provided in note 21 to the consolidated financial statements.

Twelve million non-voting Loblaw second preferred shares, Series A, are authorized and 9.0 million were outstanding at year end 2011. These preferred shares are presented as capital securities and are included in long term liabilities on the consolidated balance sheets. Dividends on capital securities are presented in net interest expense and other financing charges on the consolidated statements of earnings.

Further information on the Company's capital securities is provided in note 20 to the consolidated financial statements.

(1) See non-GAAP financial measures beginning on page 54.

At year end, a total of 1,414,504 GWL stock options were outstanding, representing 1.1% of GWL's issued and outstanding common shares. At year end, a total of 10,750,993 Loblaw stock options were outstanding, representing 3.8% of Loblaw's issued and outstanding common shares. The number of stock options outstanding was within the Companies' guidelines of 5% of the total number of outstanding shares. Each stock option is exercisable into one common share of GWL or Loblaw at the price specified in the terms of the option agreement. Commencing February 22, 2011, GWL and Loblaw amended their stock option plans whereby the right to receive a cash payment in lieu of exercising an option for shares was removed.

Additional information on GWL's and Loblaw's share-based compensation arrangements is provided in notes 2 and 25 to the consolidated financial statements.

Dividends

The declaration and payment of dividends and the amounts thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time. Over the long term, GWL's objective is for its common 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. Currently, there is no restriction that would prevent GWL from paying common dividends at historical levels. Dividends on the preferred shares rank in priority ahead of the common shares.

Subsequent to the end of 2011, common share dividends of $0.36 per share and preferred share dividends of $0.32 per share for the Series III and Series IV preferred shares and dividends of $0.30 per share for the Series V preferred shares, payable on April 1, 2012, were declared by the Board. In addition, dividends of $0.36 per share for the Series I preferred shares, payable on March 15, 2012, were also declared.

As a result of the Company's solid operating performance, significant cash balances and ample liquidity to grow the business, GWL paid a special one-time common share dividend of $7.75 per common share in January 2011.

At the time such dividends are declared, GWL identifies on its website (www.weston.ca) the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency ("CRA").

Normal Course Issuer Bid ("NCIB") Programs

In 2011, GWL and Loblaw renewed their NCIB programs to purchase on the Toronto Stock Exchange ("TSX") or enter into equity derivatives to purchase, up to 6,454,276 and 14,096,437 of their common shares, respectively, representing approximately 5% of their common shares outstanding. In accordance with the rules and regulations of the TSX, any purchases must be at the then market prices of such shares. During 2011, GWL purchased for cancellation 902,379 (2010 – nil) of its common shares for $61 million (2010 – nil). During 2011, Loblaw purchased for cancellation 1,021,986 (2010 – nil) of its common shares for $39 million (2010 – nil). In 2012, GWL and Loblaw each intend to renew their NCIB programs. In the event that the shares of GWL trade in a price range that the Company believes does not fully reflect their value, the purchase of shares of GWL may be an attractive use of available funds.

Cross Currency Swaps

Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw, entered into cross currency swaps to exchange United States ("U.S.") dollars for $1,252 million (2010 – $1,206 million) Canadian dollars, which mature by 2018. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at year end 2011, a cumulative unrealized foreign currency exchange rate receivable of $89 million (2010 − $161 million) was recorded in other assets, and a receivable of $48 million (2010 – $15 million) was recorded in prepaid expenses and other assets. In 2011, fair value losses of $29 million (2010 – gains of $62 million) were recognized in operating income relating to these cross currency swaps, of which $16 million (2010 − $39 million) related to cross currency swaps that matured or were terminated. In addition, gains of $25 million (2010 – losses of $52 million) were recognized in operating income as a result of translating U.S. $1,073 million (2010 – U.S. $1,033 million) cash and cash equivalents, short term investments and security deposits.

In 2008, Loblaw entered into fixed cross currency swaps to exchange $296 million Canadian dollars for U.S. $300 million, which mature by 2015. As at year end 2011, a cumulative unrealized foreign currency exchange rate receivable of $14 million (2010 − $11 million) was recorded in other assets. In 2011, Loblaw recognized in operating income an unrealized fair value gain of $2 million (2010 – loss of $12 million) on these cross currency swaps. In addition, Loblaw recognized in operating income an unrealized foreign currency translation loss of $6 million (2010 – gain of $16 million) related to its fixed-rate U.S. $300 million private placement notes.

Additional information on Loblaw's cross currency swaps is provided in notes 28 and 29 to the consolidated financial statements.

Interest Rate Swaps

Loblaw maintains a notional $150 million (2010 − $150 million) in interest rate swaps on which it pays a fixed rate of 8.38%. As at year end 2011, the fair value of these interest rate swaps of $16 million (2010 − $24 million) was recorded in other liabilities. In 2011, Loblaw recognized a fair value gain of $8 million (2010 − $7 million) in operating income related to these interest rate swaps.

Interest rate swaps previously held by Glenhuron converted a notional $200 million of floating rate cash and cash equivalents, short term investments and security deposits to average fixed rate investments at 4.74%. These interest rate swaps matured in 2011. As at year end 2010, the fair value of these interest rate swaps of $7 million was recorded in other assets. In 2011, Glenhuron recognized a fair value loss of $7 million (2010 − $8 million) in operating income related to these interest rate swaps.

Additional information on Loblaw's interest rate swaps is provided in notes 28 and 29 to the consolidated financial statements.

Equity Swaps and Forwards

As at year end 2011, GWL had equity swap contracts to buy 0.8 million (2010 – 1.7 million) GWL common shares at a forward price of $107.26 (2010 – average forward price of $103.17). As at year end 2011, the unrealized market loss of $31 million (2010 – $32 million) was recorded in trade and other payables. In 2011, GWL recorded a fair value loss of $15 million (2010 – gain of $29 million) in operating income related to these equity swap contracts. Also during 2011, GWL paid $75 million to terminate equity swaps and purchase for cancellation the underlying 886,700 GWL common shares under its NCIB program.

During 2011, GWL amended its swap agreements to adjust the forward price of its equity swaps by $7.75 from an average forward price of $103.17 to an average forward price of $95.42 as a result of the special one-time common share dividend of $7.75 per common share paid in January 2011.

As at year end 2011, Glenhuron had equity forward contracts to buy 1.1 million (2010 – 1.5 million) Loblaw common shares at an average forward price of $56.38 (2010 – $56.26), including $0.05 of interest income (2010 – $0.04 of interest expense) per common share. As at year end 2011, the cumulative interest, dividends and unrealized market loss of $20 million (2010 – $24 million) was included in trade and other payables. In 2011, Glenhuron recognized a fair value loss of $2 million (2010 – gain of $11 million) in operating income related to these equity forward contracts. During 2011, Glenhuron paid $7 million to terminate equity forwards representing 390,100 Loblaw common shares, which Loblaw purchased for cancellation for $15 million under its NCIB program.

In 2001, WHL entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of $88.14 (2010 – $84.09) per Loblaw common share as at year end 2011. The forward sale agreement matures in 2031 and will be settled in cash as follows: WHL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. As at year end 2011, the fair value of this equity forward sale agreement based on 9.6 million Loblaw common shares of $478 million (2010 – $421 million) was recorded in other assets. In 2011, GWL recorded a fair value gain of $18 million (2010 – loss of $62 million) in net interest expense and other financing charges related to this equity forward sale agreement.

Additional information on GWL's and Loblaw's equity derivative contracts is provided in notes 28 and 29 to the consolidated financial statements.

Weston Foods Commodity Derivatives
Weston Foods uses commodity futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices.

As at year end 2011, the unrealized loss related to Weston Foods' commodity futures of $1 million (December 31, 2010 – gain of $16 million) was recorded in accounts receivable. As at year end 2011, a nominal cumulative fair value gain (December 31, 2010 – cumulative gain of $3 million) related to Weston Foods' commodity options was recorded in accounts receivable.

Additional information on the Weston Foods commodity derivatives is included in notes 10 and 28 to the consolidated financial statements.

6.3 SELECTED ANNUAL INFORMATION

The following is an excerpt of selected consolidated financial information from the Company's consolidated financial statements. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the results of operations and financial condition of the Company over the latest three year period, with the exception of the Company's transition to IFRS.

For the years ended December 31 ($ millions except where otherwise indicated)	**2011**	2010[3]	2010 (CGAAP)[3]	2009 (CGAAP)
Sales	**$ 32,376**	$ 31,847	$ 32,008	$ 31,820
Net earnings from continuing operations attributable to shareholders of the Company	**$ 635**	$ 452	$ 452	$ 127
Net earnings attributable to shareholders of the Company[1]	**$ 635**	$ 452	$ 452	$ 1,035
Net earnings[1,2]	**$ 919**	$ 703	$ 452	$ 1,035
Basic net earnings per common share from continuing operations ($)	**$ 4.58**	$ 3.16	$ 3.16	$ 0.64
Basic net earnings per common share	**$ 4.58**	$ 3.16	$ 3.16	$ 7.68

($ millions)	As at **Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010[4]
Total assets	**$ 21,323**	$ 21,696	$ 21,190
Total long term debt	**$ 6,844**	$ 7,316	$ 6,568
Capital securities	**$ 222**	$ 221	$ 220

(1) 2009 net earnings attributable to shareholders of the Company and 2009 net earnings include a gain on disposal of $939 million ($901 million, net of tax) recorded in discontinued operations.
(2) 2010 and 2009 net earnings under CGAAP are net of minority interest of $273 million and $260 million, respectively.
(3) For information on the Company's transition to IFRS, refer to note 34 on page 124 to the consolidated financial statements.
(4) January 1, 2010 was the Company's IFRS transition date.

Over the past three years, the Company's consolidated sales have improved despite a challenging economic environment. Weston Foods sales have been impacted by pricing, bakery acquisitions, foreign currency translation, increased promotional spending and certain key market trends such as changing consumer eating preferences and the continuing shift in consumer food shopping patterns toward alternate format retail channels. Loblaw's sales were under pressure in a competitively intense retail marketplace with an uncertain economic environment.

Weston Foods sales and volumes in 2011 and in the second half of 2010 were positively impacted by the acquisition of Keystone and ACE. Excluding these acquisitions, 2011 sales were positively impacted by higher pricing across key product categories, partially offset by the negative impact of foreign currency translation and lower sales volumes compared to 2010. Weston Foods 2010 sales were negatively impacted by foreign currency translation and lower pricing including increased promotional spending compared to 2009. Volumes in 2010 were relatively flat compared to 2009.

Loblaw's average annual national food price inflation as measured by CPI was 4.2% in 2011 and 1.0% in 2010. In 2011 and 2010, Loblaw's average annual internal retail food price index was lower than CPI. Loblaw experienced moderate average annual internal food price inflation in 2011 and marginal deflation in 2010. In 2011, same-store retail sales growth was 0.9%, compared to a decline in 2010 of 0.6%. During the year, the number of corporate and franchise stores increased to 1,046 (2010 – 1,027; 2009 – 1,029). In 2011, Loblaw opened 11 *Joe Fresh* free standing stores, including five new locations in the United States, and nine new *nofrills* stores. Retail square footage in 2011 has increased to 51.2 million (2010 – 50.7 million, 2009 – 50.6 million).

Over the last three years, the Company's consolidated net earnings from continuing operations attributable to shareholders of the Company have improved and were impacted by the following items:

- restructuring and other charges incurred by Weston Foods and Loblaw;
- the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin Holdings GmbH ("Dunedin"), a subsidiary of GWL, and certain of its affiliates;
- a commodity derivatives fair value adjustment at Weston Foods;
- fluctuations in share-based compensation net of equity derivatives of both GWL and Loblaw;
- accounting for WHL's forward sale agreement of 9.6 million Loblaw common shares;
- a gain related to the sale of a portion of a Loblaw property recorded in 2011;
- net insurance proceeds recorded by Weston Foods in 2011;
- the effect of certain prior years' commodity tax matters at Loblaw recorded in 2011;
- the effect of changes in federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options recorded in 2010;
- a non-cash goodwill impairment in Weston Foods' biscuits, cookies, cones and wafers business recorded in 2009;
- the redemption of the GWL 12.7% Promissory Notes recorded in 2009; and
- the reversal of cumulative foreign currency translation losses recorded in 2009.

At Weston Foods, operating income during 2011 and 2010 was positively impacted by the benefits realized from productivity improvements and other cost reduction initiatives. Operating income in 2011 was also positively impacted by higher pricing in certain product categories and the bakery acquisitions, partially offset by higher commodity and fuel costs and the continued escalation in labour and related benefits costs. Operating income in 2010 was also positively impacted by lower input costs and lower legal and restructuring charges, partially offset by lower pricing in certain product categories.

At Loblaw, 2011 and 2010 operating income was significantly impacted by incremental IT and supply chain charges related to its infrastructure implementation. Offsetting these charges were the related year over year reductions in supply chain operating costs as well as labour and other operational efficiencies. Loblaw's 2011 and 2010 operating income was further impacted by year over year fluctuations in fixed asset impairment charges and recoveries.

Fluctuations in the Company's consolidated net interest and other financing charges were primarily driven by the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares, lower average debt levels combined with the issuance of lower interest rate MTNs and the repayment of higher interest rate MTNs. PC Bank also introduced its GIC program in 2010. In 2009, net interest expense and other financing charges also included a loss related to the redemption of GWL's 12.7% Promissory Notes.

Fluctuations in the Company's income tax expense were primarily driven by non-taxable foreign currency translation gains and non-deductible foreign currency translation losses, reductions in federal and Ontario statutory income tax rates and a decrease in non-deductible items. Income tax expense in 2010 was negatively impacted by charges related to changes in the federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options and certain prior year income tax matters.

The Company's 2009 net earnings attributable to shareholders of the Company and 2009 net earnings included net earnings from discontinued operations. On January 21, 2009, Dunedin sold its U.S. fresh bakery business to Grupo Bimbo, S.A.B. de C.V. for gross and net proceeds of approximately U.S. $2.5 billion, including approximately U.S. $125 million for interest bearing assets. The sale resulted in a gain of $939 million ($901 million, net of tax). The results and the gain on the sale of the U.S. fresh bakery business were reflected separately as discontinued operations in 2009.

The Company's total assets in 2011 decreased by 1.7% compared to 2010. The decrease was primarily due to the payment of the $1.0 billion special one-time common share dividend, partially offset by an increase in fixed assets as a result of Loblaw's capital investment program, including the incremental investment in IT and supply chain and increases in Loblaw's accounts receivable. The decrease was also partially offset by the depreciation of the Canadian dollar relative to the U.S. dollar, which caused an increase in the translated amounts of U.S. dollar denominated net assets. The Company's total assets in 2010 increased by 2.4% compared to 2009. The increase was primarily due to an increase in fixed assets primarily as a result of Loblaw's capital investment program, including the incremental investment in IT and supply chain. This increase was partially offset by the appreciation of the Canadian dollar relative to the U.S. dollar, which caused a decrease in the translated amounts of U.S. dollar denominated net assets.

The Company's total long term debt in 2011 decreased by 6.5% compared to 2010. The decrease was primarily due to the repayment by Loblaw of its $350 million, 6.50% MTN and the repayment of $500 million of *Eagle* notes, partially offset by the issuance of GICs. The Company's total long term debt in 2010 increased by 11.4% compared to 2009. The increase was primarily due to the issuance of $600 million of *Eagle* notes and an increase in Loblaw's finance lease obligations.

The Company holds significant cash and short term investments denominated in Canadian and U.S. dollars. Cash flows from operating activities and the proceeds from the sale of the U.S. fresh bakery business in 2009 have exceeded the funding requirements for the Company over the past three years.

Over the past three years, the Company's funding requirements resulted primarily from:

- capital investment programs;
- repayment of short term and long term debt;
- acquisition of Keystone by Weston Foods;
- acquisition of ACE by Weston Foods;
- acquisition of T&T Supermarket Inc. by Loblaw;
- dividends paid on common and preferred shares, including the $1.0 billion special one-time common share dividend paid by GWL in January 2011;
- redemption of the GWL 12.7% Promissory Notes;
- redemption of the GWL preferred shares, Series II; and
- settlement of GWL and Loblaw equity derivative contracts.

7. RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion provides details of the 2011 results of operations of each of the Company's reportable operating segments.

7.1 WESTON FOODS OPERATING RESULTS

($ millions except where otherwise indicated)	**2011**	2010	Change
Sales	**$ 1,772**	$ 1,624	9.1%
Operating income	**$ 208**	$ 285	(27.0)%
Operating margin	**11.7%**	17.5%	
Adjusted operating income[1]	**$ 265**	$ 235	12.8%
Adjusted operating margin[1]	**15.0%**	14.5%	
Adjusted EBITDA[1]	**$ 325**	$ 290	12.1%
Adjusted EBITDA margin[1]	**18.3%**	17.9%	
Return on average net assets[1]	**24.5%**	40.8%	

(1) See non-GAAP financial measures beginning on page 54.

As previously noted, the Company purchased Keystone, a U.S. manufacturer and supplier of frozen cupcakes, doughnuts and cookies on, September 24, 2010 and purchased ACE, a Canadian manufacturer and supplier of artisan and European-style rustic bread varieties, on November 1, 2010. The results of Keystone and ACE from their respective dates of acquisition were included in Weston Foods results. The discussion of sales results "excluding acquisitions" below removes the impact of incremental Keystone and ACE sales for 52 weeks from the date of purchase.

Sales and operating income in 2011 were impacted by the following trends and key factors:

- changing consumer eating preferences toward healthier, more nutritious and value-added offerings continued in 2011. Weston Foods responded to these trends with innovative and expanded products across its product portfolio resulting in new sales growth. These trends are expected to continue into 2012 and Weston Foods is well positioned to participate in this growth with its strong portfolio of on-trend offerings under its *Wonder*, *D'Italiano*, *Country Harvest* and *Gadoua* brands, particularly with the relaunch of the *Wonder* and *Gadoua MultiGo* lines of breads that are free of artificial additives including preservatives, colours and flavours;
- the continuing shift in consumer food shopping patterns toward alternate format retail channels rather than traditional, conventional supermarket formats resulted in sales growth with these alternate format retailers. Weston Foods continues to focus on ensuring its products are well aligned to serve all its customers' needs;
- economic uncertainty, low consumer confidence and a highly competitive retail landscape results in a very difficult sales environment where driving volume growth and recovering cost inflation through pricing remains challenging. While Weston Foods was able to increase sales prices across most product categories in 2011, in many cases these price increases were directly followed by a general softening in sales volumes for a period of time following the price increase, which, along with overall market softness was a contributing factor to lower sales volumes in 2011;
- significant increases in commodity and fuel costs, which were mitigated through a combination of price increases and productivity and cost reduction initiatives; and
- the acquisition of Keystone and ACE in 2010, which contributed positively to overall frozen bakery sales and earnings growth in 2011.

A detailed discussion on how these trends and other factors impacted sales and operating income in 2011 is set out below.

Sales

Weston Foods sales for 2011 of $1,772 million increased by 9.1%, supported by volume growth of 5.5%, compared to 2010. The acquisition of Keystone and ACE positively impacted sales growth and volume growth by approximately 8.5% and 6.4%, respectively, while foreign currency translation negatively impacted sales by approximately 1.8%. Excluding the impact of acquisitions and foreign currency translation, sales increased by 2.4% due to the positive impact of higher pricing across key product categories of 3.3%, partially offset by a decrease in volume of 0.9%. Price increases were implemented during 2011 to mitigate higher commodity and fuel costs.

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

Fresh bakery sales, principally bread, rolls, bagels, tortillas and sweet goods represented approximately 36% of total Weston Foods sales, down from approximately 39% in 2010 as a result of the acquisitions in frozen bakery. The fresh bakery sales increased approximately 0.2% in 2011 compared to 2010 primarily due to the positive impact of higher pricing across key product categories offset by lower sales volumes. Although volumes declined in certain product categories, growth was realized in the *D'Italiano*, *Country Harvest* and *Jake's Bake House* brands. The introduction of new products, such as *Country Harvest* Ancient Grains, *Country Harvest* Raisin Cinnamon with Whole Wheat, *Wonder+ SimplyFree, Gadoua MultiGo* Flat Bagels, Pitas and Tortillas, and the *Première Fournée de Weston* line of artisan inspired breads, contributed positively to branded sales in 2011. In addition, late in the third quarter of 2011, Weston Foods relaunched the *Wonder* and *Gadoua MultiGo* lines of breads that are free of artificial additives including preservatives, colours and flavours.

Frozen bakery sales, principally bread, rolls, doughnuts, cakes and sweet goods represented approximately 47% of total Weston Foods sales, up from approximately 42% in 2010. Frozen bakery sales increased approximately 25.0% in 2011 compared to 2010 primarily driven by the acquisition of Keystone and ACE. Excluding the effect of these acquisitions, frozen bakery sales increased approximately 4.9% in 2011 compared to 2010 due to higher pricing and higher sales volumes.

Biscuit sales, principally wafers, ice-cream cones, cookies and crackers represented approximately 17% of total Weston Foods sales, down from approximately 19% in 2010 as a result of the acquisitions in frozen bakery. Biscuit sales increased approximately 1.6% in 2011 compared to 2010 due to higher pricing in certain product categories. Overall volumes were flat compared to 2010 mainly due to growth in cookie and cracker sales, offset by lower wafer, cone and cup sales.

Operating Income

Weston Foods operating income for 2011 decreased by $77 million, or 27.0%, to $208 million compared to $285 million in 2010. Operating margin for 2011 was 11.7% compared to 17.5% in 2010.

Adjusted operating income(1) increased by $30 million, or 12.8%, to $265 million in 2011 from $235 million in 2010. Adjusted operating margin(1) was 15.0% in 2011 compared to 14.5% in 2010.

Adjusted operating income(1) in 2011 was positively impacted by sales growth mainly as a result of higher pricing in key product categories and the bakery acquisitions, and by the benefits realized from productivity improvements and other cost reduction initiatives, which were partially offset by higher commodity and fuel costs and the continued escalation in labour and related benefit costs. Weston Foods adjusted operating income(1) excludes restructuring and other charges, a commodity derivatives fair value adjustment, the impact of share-based compensation net of equity derivatives and net insurance proceeds. See Section 18, “Non-GAAP Financial Measures”, of this MD&A for more information on the Company’s non-GAAP financial measures.

Gross margin, excluding the impact of the commodity derivatives fair value adjustment, decreased in 2011 compared to 2010 primarily as a result of the increase in commodity costs as described above. The commodity derivatives fair value adjustment is described in Section 18, “Non-GAAP Financial Measures”, of this MD&A.

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. Restructuring activities related to these initiatives are ongoing and in 2011, a charge of $13 million (2010 – $8 million) was recorded in operating income. The 2011 charge was primarily related to the ratification of a new collective agreement in conjunction with the acquisition of Colonial Cookies, a biscuit manufacturer in Ontario, which was recorded in the first quarter of 2011 and the closures of two frozen bakery manufacturing facilities, one in Canada and one in the United States, which were recorded primarily in the fourth quarter of 2011.

Adjusted EBITDA(1) increased by $35 million, or 12.1%, to $325 million in 2011 compared to $290 million in 2010. Adjusted EBITDA margin(1) for 2011 increased to 18.3% from 17.9% in 2010.

Outlook(2)

In 2012, Weston Foods expects to deliver modest sales growth with market conditions expected to remain challenging. Higher commodity and input costs are expected in the first half of 2012, and these higher costs will put increased pressure on operating margins when compared to the same period in 2011. Weston Foods is continuing its efforts to reduce costs through improved efficiencies and ongoing cost reduction initiatives in an effort to achieve full year operating margins in line with those in 2011.

(1) See non-GAAP financial measures beginning on page 54.
(2) To be read in conjunction with Forward-Looking Statements beginning on page 5.

7.2 LOBLAW OPERATING RESULTS

($ millions except where otherwise indicated)	2011	2010	Change
Sales	$ 31,250	$ 30,836	1.3%
Operating income	$ 1,376	$ 1,339	2.8%
Operating margin	4.4%	4.3%	
Adjusted operating income[1]	$ 1,435	$ 1,424	0.8%
Adjusted operating margin[1]	4.6%	4.6%	
Adjusted EBITDA[1]	$ 2,134	$ 2,052	4.0%
Adjusted EBITDA margin[1]	6.8%	6.7%	
Return on average net assets[1]	11.7%	11.8%	

(1) See non-GAAP financial measures beginning on page 54.

Loblaw has two reportable operating segments: Retail and Financial Services. Loblaw is one reportable operating segment of GWL.

In early 2011, Loblaw realigned its Retail segment into a two divisional structure – conventional and discount – to both sharpen its customer proposition and improve execution. The benefits of the realignment began to show in the second half of the year, with improved sales trends. Earnings growth was challenged during the year due to ongoing competitive intensity and continued investments in IT and supply chain infrastructure.

Sales

Loblaw sales for 2011 increased by 1.3% to $31.3 billion compared to $30.8 billion in 2010. The increase in retail sales in 2011 compared to 2010 was impacted by the following factors:

- same-store retail sales growth was 0.9% (2010 – 0.6% decline);
- sales growth in food was modest;
- sales in drugstore declined marginally, driven by deflation, partially offset by prescription growth;
- gas bar sales growth was strong as a result of higher retail gas prices and moderate volume growth;
- sales in general merchandise, excluding apparel, declined moderately due to continued reductions in square footage and optimization of range and assortment of products;
- increased apparel square footage contributed to a moderate increase in sales;
- Loblaw experienced moderate average annual internal food price inflation during 2011, which was lower than the average annual national food price inflation of 4.2% (2010 – 1.0%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- during 2011, 26 (2010 – 11) corporate and franchise stores were opened and seven (2010 – 13) corporate and franchise stores were closed, resulting in a net increase of 0.5 million square feet, or 1.0%.

In 2011, Loblaw launched over 1,100 new control label products and redesigned and/or improved the packaging of approximately 500 products. Sales of control label products for 2011 were $8.3 billion compared to $8.2 billion in 2010.

Loblaw sales for 2011 were also positively impacted by an increase in Financial Services segment revenue of $26 million, or 5.0%, compared to 2010. This increase was primarily due to higher interchange income as a result of higher credit card transaction values and higher *PC* Telecom revenue resulting from the launch of the new Mobile Shop kiosks in the fourth quarter of 2011. These increases were partially offset by lower credit card interest revenue due to increased customer payment rates and more stringent credit risk management policies.

Operating Income

Loblaw operating income of $1,376 million for 2011 increased $37 million, or 2.8%, compared to $1,339 million in 2010, resulting in an increase in operating margin to 4.4% in 2011 from 4.3% in 2010.

Loblaw adjusted operating income[(1)] of $1,435 million for 2011 increased $11 million, or 0.8%, compared to $1,424 in 2010. Adjusted operating margin[(1)] was 4.6% in both 2011 and 2010. Retail adjusted operating income[(1)] improved by $47 million, offset by a decline of $36 million due to the continued investment in the growth of the Financial Services segment.

Gross profit generated by Loblaw's Retail segment increased by $33 million to $6,820 million in 2011 compared to $6,787 million in 2010. Gross profit as a percentage of retail sales was 22.2% in 2011 compared to 22.4% in 2010. The decline in gross profit percentage compared to 2010 was primarily driven by a higher level of promotional activity and higher input costs outpacing internal food price inflation, a higher proportion of lower margin gas bar sales and increased fuel costs, partially offset by improved shrink. The $33 million increase in gross profit compared to 2010 was mainly attributable to improved control label profitability, the shift of pharmaceutical professional allowances from selling, general and administrative expenses to gross profit, improved shrink and the growth and performance of Loblaw's franchise business. Increases in promotional pricing programs and fuel costs partially offset these improvements.

The increase in adjusted operating income[(1)] was mainly attributable to increased gross profit dollars, continued labour, supply chain and other operating cost efficiencies and growth and performance of Loblaw's franchisees. These improvements were partially offset by incremental costs of $92 million related to investments in IT and supply chain, costs of $35 million (2010 – nil) related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms under collective agreements ratified in 2010, start up costs of $21 million (2010 – nil) associated with the launch of Loblaw's *Joe Fresh* brand in the United States, foreign exchange losses and a charge of $5 million (2010 – recovery of $7 million) for fixed asset impairment losses net of recoveries, related to asset carrying values in excess of recoverable amounts for specific retail locations. In 2010, costs of $17 million associated with the ratification of Ontario collective agreements were incurred.

Loblaw adjusted operating income[(1)] in 2011 was also negatively impacted by a decrease in Financial Services segment operating income of $36 million, or 33.3%, due to significant credit card marketing and increased customer acquisition and other operating costs, consistent with Loblaw's continued investment in the growth of the Financial Services segment. The investment in the launch of *PC* Telecom's Mobile Shop kiosks also contributed to these decreases. Higher revenue and better experience in credit card losses partially reduced the year-over-year decrease in adjusted operating income[(1)].

Loblaw adjusted operating income[(1)] excludes other charges, the impact of share-based compensation net of equity derivatives, the effect of certain prior years' commodity tax matters and a gain related to the sale of a portion of a property. See Section 18, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

Adjusted EBITDA[(1)] increased by $82 million, or 4.0%, to $2,134 million in 2011 compared to $2,052 million in 2010. Adjusted EBITDA margin[(1)] increased to 6.8% compared to 6.7% in 2010.

Outlook[(2)]

In 2012, Loblaw will continue to strengthen its customer proposition, while the completion of its IT systems will remain a key priority. Loblaw expects there to be incremental costs related to net investments in IT and supply chain in 2012, as well as continued investment in its customer proposition. Loblaw does not expect its operations to cover these incremental costs, and as a result, anticipates full year 2012 operating income to be down year-over-year, with more pressure in the first half of the year.

(1) See non-GAAP financial measures beginning on page 54.

(2) To be read in conjunction with Forward-Looking Statements beginning on page 5.

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 MAJOR CASH FLOW COMPONENTS

($ millions)	2011	2010	Change
Cash flows from operating activities	**$ 1,974**	$ 2,279	$ (305)
Cash flows used in investing activities	**$ (15)**	$ (1,493)	$ 1,478
Cash flows used in financing activities	**$ (2,049)**	$ (806)	$ (1,243)

Cash Flows from Operating Activities
Cash flows from operating activities in 2011 were $1,974 million compared to $2,279 million in 2010. The decrease when compared to 2010 was primarily due to more stringent vendor management polices related to Loblaw's trade and other payables which resulted in a reduction in 2010 working capital. These policies were applied consistently in 2011 and therefore did not impact the year-over-year change in non-cash working capital. The 2011 decrease in cash flow from operating activities was partially offset by an increase in adjusted EBITDA(1) and a decrease in income taxes paid compared to 2010.

Cash Flows used in Investing Activities
Cash flows used in investing activities in 2011 were $15 million compared to $1,493 million in 2010. The decrease when compared to 2010 was primarily due to the cash generated by a decrease in short term investments and security deposit balances in order to fund the $1.0 billion special one-time common share dividend and the repayment of the *Eagle* notes as discussed in the Cash Flows used in Financing Activities section below. The acquisition of Keystone and ACE by Weston Foods in 2010 also contributed to the year-over-year decrease.

The presentation of the Company's investments as cash equivalents or short term investments is based on the term to maturity of the investments at the time they are acquired.

The Company's capital investment in 2011 was $1.0 billion (2010 – $1.2 billion). Weston Foods' capital investment was $40 million (2010 – $24 million). Loblaw's capital investment was $1.0 billion (2010 – $1.2 billion). Approximately 17% (2010 – 10%) of Loblaw's investments were for new store developments, expansions and land, approximately 32% (2010 – 44%) were for store conversions and renovations, and approximately 51% (2010 – 46%) were for infrastructure investments.

Loblaw expects to invest approximately $1.1 billion in capital expenditures in 2012(2). Approximately 40% of these funds are expected to be dedicated to investing in the IT infrastructure and supply chain projects. The remaining 60% will be spent on retail operations.

Loblaw's 2011 corporate and franchise store capital investment program, which included the impact of store openings and closures, resulted in an increase in net retail square footage of 1.0% compared to 2010. During 2011, 26 (2010 – 11) corporate and franchise stores were opened and seven (2010 – 13) corporate and franchise stores were closed, resulting in a net increase of 0.5 million (2010 – 0.1 million) square feet. In 2011, 121 (2010 – 160) corporate and franchise stores underwent renovations.

At year end 2011, the Company had committed approximately $60 million (2010 – $96 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Cash Flows used in Financing Activities
Cash flows used in financing activities in 2011 were $2,049 million compared to $806 million in 2010.

The increase when compared to 2010 was primarily due to the payment of the $1.0 billion special one-time common share dividend in January 2011, GWL's and Loblaw's purchases of common shares for cancellation in the fourth quarter of 2011 and higher net repayments of debt as detailed below.

(1) See non-GAAP financial measures beginning on page 54.
(2) To be read in conjunction with Forward-Looking Statements beginning on page 5.

During 2011, GWL and Loblaw completed the following financing activities:

- GWL issued $350 million of unsecured 3.78% MTN, Series 2-A;
- GWL repaid $300 million of 6.45% MTN;
- GWL issued $39 million of Series B Debentures;
- GWL paid a $1.0 billion special one-time common share dividend;
- GWL issued 17,560 common shares on the exercise of stock options for cash consideration of $1 million;
- GWL purchased for cancellation 902,379 common shares for $61 million;
- Loblaw repaid $350 million 6.50% MTN;
- Loblaw issued 686,794 common shares on the exercise of stock options for cash consideration of $21 million;
- Loblaw purchased for cancellation 1,021,986 common shares for $39 million;
- *Eagle* repaid $500 million of Series 2006-I notes;
- PC Bank securitized $370 million in credit card receivables;
- PC Bank issued $264 million of GICs; and
- PC Bank repaid $6 million in GICs.

During 2010, GWL and Loblaw completed the following financing activities:

- GWL issued $36 million of Series B Debentures;
- Loblaw issued $350 million of unsecured 5.22% MTN, Series 2-B;
- Loblaw repaid $300 million of 7.10% MTN;
- *Eagle* issued $600 million of Series 2010 notes;
- PC Bank repurchased $690 million in securitized credit card receivables; and
- PC Bank issued $18 million of GICs.

Additional information on debt, capital securities, share capital transactions and subsidiary capital transactions is provided in notes 17, 18, 20, 21 and 22 to the consolidated financial statements.

Defined Benefit Pension Plan Contributions

During 2012, the Company expects to contribute approximately $170 million to its registered funded defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors. The Company also expects to make contributions in 2012 to its defined contribution plans and the multi-employer pension plans in which it participates as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefit plans.

8.2 SOURCES OF LIQUIDITY

The Company holds significant cash and cash equivalents and short term investments denominated in Canadian and U.S. dollars. These funds are invested in highly liquid marketable short term investments consisting primarily of government treasury bills, corporate commercial paper, bankers' acceptances, bank term deposits and government agency securities.

The Company (excluding Loblaw) expects that cash and cash equivalents, short term investments and future operating cash flows will enable it to finance its capital investment program and fund its ongoing business requirements, including working capital and pension plan funding over the next 12 months.

On May 25, 2011, GWL filed a Short Form Base Shelf Prospectus ("Prospectus") allowing for the issuance of up to $1.5 billion in unsecured debentures and/or preferred shares over a 25-month period subject to the availability of funding by capital markets. On June 15, 2011, GWL filed a Prospectus Supplement to this Prospectus creating an MTN program pursuant to which it may issue unsecured debentures up to $1.0 billion. On October 25, 2011, GWL issued $350 million principal amount of five-year unsecured MTN, Series 2-A pursuant to this MTN, Series 2 program. Interest on the notes is payable semi-annually at a fixed rate of 3.78%. The notes are unsecured obligations and are redeemable at the option of GWL. Also, on October 23, 2011, GWL's $300 million 6.45% MTN matured and was repaid. The Company (excluding Loblaw) does not foresee any impediments in obtaining financing to satisfy its long term obligations.

Loblaw expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its $800 million committed credit facility will enable Loblaw to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding and financial obligations over the next 12 months. Loblaw has traditionally obtained its long term financing primarily through an MTN program. Loblaw may refinance maturing long term debt with MTNs if market conditions are appropriate or it may consider other alternatives. In addition, given reasonable access to capital markets, Loblaw does not foresee any material impediments in obtaining financing to satisfy its long term obligations.

Loblaw's $800 million committed credit facility contains certain financial covenants with which Loblaw was in compliance throughout the year. During 2011, Loblaw amended its agreements for the credit facility and its U.S. $300 million private placement notes to include certain relevant IFRS adjustments in computing the financial metrics that are used in calculating Loblaw's financial covenants. These amendments largely served to neutralize the impact of IFRS on the covenant calculation. As at year end 2011, Loblaw was in compliance with all of its covenants. In addition to cash and short term investments, this facility is a source of liquidity for Loblaw. As at the end of 2011 and 2010, there were no amounts drawn upon the committed credit facility.

During 2010, Loblaw filed a Prospectus allowing for the issuance of up to $1.0 billion of unsecured debentures and/or preferred shares over a 25-month period subject to the availability of funding by capital markets. This Prospectus expires in 2012 and Loblaw intends to renew it in 2012.

In addition to participating in various securitization programs to fund its operations, PC Bank obtains short term and long term financing through its GIC program. During 2010, PC Bank began accepting deposits under a new GIC program. The GICs, which are sold through an independent broker channel, are issued with fixed terms ranging from 12 to 60 months and are non-redeemable prior to maturity. Individual balances up to $100,000 are insured by Canada Deposit Insurance Corporation. During 2011, PC Bank sold $264 million (2010 – $18 million) in GICs, before commissions of $2 million (2010 – nil), through independent brokers. Also during 2011, $6 million (2010 – nil) of GICs matured and were repaid. As at year end 2011, Loblaw recorded in long term debt $276 million (2010 – $18 million), before commissions of $2 million (2010 – nil) of outstanding GICs, of which $46 million (2010 – $5 million) was recorded as long term debt due within one year.

During 2011, GWL and Loblaw entered into agreements to cash collateralize certain uncommitted credit facilities up to amounts of $40 million and $88 million, respectively. As at year end 2011, $125 million was deposited with major Canadian chartered banks and classified as security deposits on the consolidated balance sheet.

During 2011, Dominion Bond Rating Service ("DBRS") and Standard & Poor's ("S&P") reaffirmed GWL's credit ratings and trend and outlook, respectively. These ratings organizations base their forward-looking credit ratings on both quantitative and qualitative considerations. The following table sets out the current credit ratings of GWL:

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Medium term notes	BBB	Stable	BBB	Stable
Preferred shares	Pfd-3	Stable	P-3 (high)	Stable
Other notes and debentures	BBB	Stable	BBB	Stable

During 2011, DBRS and S&P reaffirmed Loblaw's credit ratings and trend and outlook, respectively. These ratings organizations base their forward-looking credit ratings on both quantitative and qualitative considerations. The following table sets out the current credit ratings of Loblaw:

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Medium term notes	BBB	Stable	BBB	Stable
Preferred shares	Pfd-3	Stable	P-3 (high)	Stable
Other notes and debentures	BBB	Stable	BBB	Stable

Independent Securitization Trusts
PC Bank participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to certain independent securitization trusts pursuant to co-ownership agreements. PC Bank purchases credit card receivables from and sells credit card receivables to these independent securitization trusts from time to time depending on PC Bank's financing requirements. During the third quarter of 2011, PC Bank amended and extended the maturity date for one of its independent securitization trust agreements from the third quarter of 2012 to the third quarter of 2014, with no material impact to other terms and conditions of the agreement. In addition to PC Bank's securitized credit card receivables, the independent securitization trusts' recourse is limited to standby letters of credit arranged by Loblaw of $81 million as at year end 2011 (2010 – $48 million), which is based on a portion of the securitized amount.

On March 17, 2011, the five-year $500 million senior and subordinated notes issued by *Eagle* matured and were repaid. In conjunction with this maturity, Loblaw accumulated $167 million of cash in December 2010 which was recorded in security deposits as at year end 2010. During 2010, *Eagle* issued $250 million of Series 2010-1 and $350 million of Series 2010-2 notes due in 2013 and 2015, respectively. In addition, in 2011, Loblaw increased its securitization of accounts receivable by $370 million under one of the independent securitization trusts.

Independent Funding Trusts
Certain independent franchisees of Loblaw obtain financing through a structure involving independent funding 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 independent funding trusts are administered by a major Canadian chartered bank. During 2011, this $475 million revolving committed credit facility was renewed and extended for a three-year period. As a result of the renewal, Loblaw's credit enhancement was reduced from 15% to 10%. Other terms and conditions remain substantially the same.

The gross principal amount of loans issued to Loblaw's independent franchisees by the independent funding trusts as at the end of 2011 was $424 million (2010 – $395 million). Loblaw has agreed to provide credit enhancement of $48 million (2010 – $66 million) in the form of a standby letter of credit for the benefit of the independent funding trust representing not less than 10% (2010 – 15%) of the principal amount of the loans outstanding. This credit enhancement allows the independent funding trust to provide financing 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. The standby letter of credit has never been drawn upon. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

8.3 CONTRACTUAL OBLIGATIONS

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at year end 2011:

Summary of Contractual Obligations

	Payments due by year						
($ millions)	2012	2013	2014	2015	2016	Thereafter	Total
Long term debt(1)	$ 87	$ 670	$ 1,140	$ 544	$ 778	$ 3,634	$ 6,853
Operating leases(2)	205	189	167	140	113	428	1,242
Contracts for purchase of real property and capital investment projects(3)	54	3	3				60
Purchase obligations(4)	176	66	38	27	16	1	324
Total contractual obligations	$ 522	$ 928	$ 1,348	$ 711	$ 907	$ 4,063	$ 8,479

(1) Long term debt includes finance lease obligations.
(2) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.
(3) These obligations include agreements for the purchase of real property and capital commitments for construction, expansion and renovation of buildings. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the underlying transactions.
(4) These include contractual obligations of a material amount to purchase goods or services where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. The purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods that are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with insignificant cost or liability to the Company. Also excluded are purchase obligations related to commodities or commodity-like goods for which a market for resale exists.

As at year end 2011, the Company had additional long term liabilities which included post-employment and other long term employee benefit plan liabilities, deferred income tax liabilities, certain share-based compensation liabilities and provisions, including insurance liabilities. These long term liabilities have not been included in the table above as the timing and amount of future payments are uncertain.

8.4 OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Company enters into off-balance sheet arrangements including:

Letters of Credit

Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and performance guarantees, securitization of PC Bank's credit card receivables and third-party financing made available to Loblaw's independent franchisees. The aggregate gross potential liability related to the Company's letters of credit is approximately $540 million (2010 – $559 million).

Guarantees

In addition to the letters of credit mentioned above, the Company has entered into various guarantee agreements including obligations to indemnify third parties in connection with leases and other transactions in the normal course of the Company's business. Additionally, Loblaw has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated in the amount of U.S. $180 million for accepting PC Bank as a card member and licensee of MasterCard®. For a detailed description of the Company's guarantees, see note 31 to the consolidated financial statements.

9. QUARTERLY RESULTS OF OPERATIONS

The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period condensed consolidated financial statements for each of the eight most recently completed quarters.

9.1 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

($ millions except where otherwise indicated)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	**2011**	**$ 7,148**	**$ 7,531**	**$ 10,061**	**$ 7,636**	**$ 32,376**
	2010	$ 7,164	$ 7,482	$ 9,826	$ 7,375	$ 31,847
Net earnings attributable to shareholders of the Company	**2011**	**$ 105**	**$ 157**	**$ 264**	**$ 109**	**$ 635**
	2010	$ 37	$ 128	$ 176	$ 111	$ 452
Net earnings per common share($)						
Basic	**2011**	**$ 0.74**	**$ 1.13**	**$ 1.94**	**$ 0.77**	**$ 4.58**
	2010	$ 0.21	$ 0.91	$ 1.26	$ 0.78	$ 3.16
Diluted	**2011**	**$ 0.71**	**$ 1.08**	**$ 1.93**	**$ 0.72**	**$ 4.55**
	2010	$ 0.14	$ 0.85	$ 1.21	$ 0.70	$ 2.92

Results by Quarter

Consolidated quarterly sales for the last eight quarters were impacted by the following significant items: the acquisition of ACE by Weston Foods in the fourth quarter of 2010, the acquisition of Keystone by Weston Foods in the third quarter of 2010, foreign currency exchange rates, seasonality and the timing of holidays.

Loblaw's average quarterly internal retail food price deflation/inflation for 2011 and 2010 remained lower than the average quarterly national retail food price inflation as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

In the last eight quarters, Loblaw's net retail square footage increased by 0.6 million square feet to 51.2 million square feet, including the opening of 11 new *Joe Fresh* stores, including five new locations in the United States, and nine new *nofrills* stores in 2011.

Weston Foods 2011 quarterly sales were positively impacted by the acquisition of Keystone and ACE and by higher pricing across key product categories in the last three quarters of 2011, partially offset by the negative impact of foreign currency translation in the first three quarters of 2011 compared to the same periods in 2010. In the fourth quarter of 2011, foreign currency translation had a positive impact on sales compared to the same period in 2010.

Consolidated 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;
- the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates;
- a commodity derivatives fair value adjustment at Weston Foods;
- fluctuations in share-based compensation net of equity derivatives of both GWL and Loblaw;
- accounting for WHL's forward sale agreement of 9.6 million Loblaw common shares;
- a gain related to the sale of a portion of a Loblaw property recorded in the third quarter of 2011;
- net insurance proceeds recorded by Weston Foods in the third and fourth quarters of 2011;
- the effect of certain prior years' commodity tax matters at Loblaw recorded in the second quarter of 2011;
- the effect of changes in federal tax legislation;
- incremental costs related to Loblaw's investments in IT and supply chain; and
- seasonality and the timing of holidays.

At Loblaw, fluctuations in quarterly operating income during 2011 reflect the underlying operations of Loblaw as well as the impact of specific charges including incremental costs related to investments in IT and supply chain, costs related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms under collective agreements ratified in 2010, start up costs associated with the launch of the *Joe Fresh* brand in the United States and fixed asset impairment charges net of recoveries. Quarterly operating income is also impacted by seasonality and the timing of holidays.

At Weston Foods, quarterly operating income during 2011 was positively impacted by higher pricing in certain product categories and the bakery acquisitions, and by the benefits realized from productivity improvements and other cost reduction initiatives, partially offset by higher fuel costs and the continued escalation in labour and related benefit costs. In addition, commodity costs were lower in the first quarter compared to the same period in 2010 but had an increasingly negative impact on operating income for the remainder of 2011 compared to the same periods in 2010. The impact of seasonality is greatest in the third and fourth quarters and least in the first quarter.

9.2 FOURTH QUARTER RESULTS (UNAUDITED)

The following is a summary of selected unaudited consolidated financial information for the fourth quarter. The analysis of the data contained in the table focuses on the results of operations and changes in the financial condition and cash flows in the fourth quarter.

Selected Consolidated Information

(unaudited)	Quarters Ended	
($ millions except where otherwise indicated)	**Dec. 31, 2011**	Dec. 31, 2010
Sales	**$ 7,636**	$ 7,375
Operating income	**$ 352**	$ 367
Operating margin	**4.6%**	5.0%
Adjusted operating income[1]	**$ 373**	$ 378
Adjusted operating margin[1]	**4.9%**	5.1%
Net interest expense and other financing charges	**$ 108**	$ 87
Income taxes	**$ 71**	$ 108
Net earnings attributable to shareholders of the Company	**$ 109**	$ 111
Basic net earnings per common share ($)	**$ 0.77**	$ 0.78
Adjusted basic net earnings per common share ($)[1]	**$ 1.01**	$ 0.92
Adjusted EBITDA[1]	**$ 558**	$ 545
Adjusted EBITDA margin[1]	**7.3%**	7.4%
Cash flows from (used in):		
Operating activities	**$ 669**	$ 645
Investing activities	**$ (469)**	$ (358)
Financing activities	**$ (225)**	$ (136)

(1) See non-GAAP financial measures beginning on page 54.

Adjusted basic net earnings per common share[1] in the fourth quarter of 2011 increased to $1.01 compared to $0.92 in the same period in 2010, an increase of $0.09 or 9.8%. The increase in the fourth quarter of 2011 was due to improved operating results at Weston Foods and a decrease in income tax expense, partially offset by a decline in adjusted operating income[1] at Loblaw compared to the same period in 2010.

Sales

Sales in the fourth quarter of 2011 were $7.6 billion compared to $7.4 billion for the same period in 2010, an increase of 3.5%.

(1) See non-GAAP financial measures beginning on page 54.

Consolidated sales for the fourth quarter of 2011 were impacted by each reportable operating segment when compared to the same period in 2010 as follows:

- Positively by 0.3% due to the sales increase of 6.2%, notwithstanding a volume decline of 0.5% at Weston Foods. The acquisition of ACE on November 1, 2010 positively impacted sales growth and volume by approximately 1.4% and 0.8%, respectively, while foreign currency translation positively impacted sales growth by approximately 0.4%. Excluding the impact of the acquisition and foreign currency translation, sales increased 4.4% due to the positive impact of higher pricing across key product categories of 5.7%, partially offset by a decrease in volume of 1.3%. Price increases were implemented during 2011 to mitigate higher commodity and fuel costs.
- Positively by 3.4% due to the sales increase of 3.6% at Loblaw. Same-store retail sales growth was 2.5% (2010 – 1.6% decline), with an extra day of store operations having a positive impact estimated to be between 0.8% and 1.0%. Sales growth in food was strong partially driven by the extra day of operations, sales growth in drugstore was flat, gas bar sales growth was strong, sales in general merchandise, excluding apparel, declined marginally and sales growth in apparel was strong. Loblaw experienced moderate average quarterly internal food price inflation during the fourth quarter of 2011, which was lower than the average quarterly national food price inflation of 5.2% (2010 – 1.5%) as measured by CPI. Loblaw sales in the fourth quarter of 2011 were also positively impacted by an increase in Financial Services segment revenue primarily driven by increased credit card transaction values resulting in higher interchange fee income when compared to the same period in 2010 and higher *PC* Telecom revenues as a result of the new Mobile Shop kiosk launch in the fourth quarter of 2011.

Operating Income

Operating income in the fourth quarter of 2011 was $352 million compared to $367 million in the same period in 2010. Consolidated operating margin in the fourth quarter of 2011 was 4.6% compared to 5.0% in the same period in 2010. Adjusted operating income(1) in the fourth quarter of 2011 was $373 million compared to $378 million in the same period in 2010, a decrease of $5 million or 1.3%. The Company's adjusted operating margin(1) in the fourth quarter of 2011 decreased to 4.9% from 5.1% in the same period in 2010.

The Company's fourth quarter year-over-year change in consolidated adjusted operating income(1) was impacted by each of its reportable operating segments as follows:

- Positively by 2.1% due to an increase of 16.7% in adjusted operating income(1) at Weston Foods. Adjusted operating income(1) was positively impacted by sales growth mainly as a result of higher pricing in key product categories and the acquisition of ACE, and by the benefits realized from productivity improvements and other cost reduction initiatives, which were partially offset by significant increases in commodity and fuel costs in the fourth quarter of 2011, when compared to the same period in 2010. Weston Foods adjusted operating income(1) excludes restructuring and other charges, a commodity derivatives fair value adjustment, the impact of share-based compensation net of equity derivatives and net insurance proceeds. See Section 18, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.
- Negatively by 3.4% due to a decrease of 3.9% in adjusted operating income(1) at Loblaw. The decreases in adjusted operating income(1) and adjusted operating margin(1) were mainly attributable to costs associated with the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms under collective agreements ratified in 2010, the incremental costs related to the investments in IT and supply chain, increases in promotional pricing programs and transportation costs, start up costs associated with the launch of Loblaw's *Joe Fresh* brand in the United States, the decrease in operating income from Loblaw's Financial Services segment and fixed asset impairment charges net of recoveries, partially offset by growth and performance of Loblaw's franchisees, continued labour, supply chain and other operating cost efficiencies, improved control label profitability and improved shrink. Loblaw adjusted operating income(1) excludes other charges and the impact of share-based compensation net of equity derivatives. See Section 18, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

(1) See non-GAAP financial measures beginning on page 54.

The Company's consolidated adjusted EBITDA margin[(1)] for the fourth quarter of 2011 decreased to 7.3% from 7.4% in the same period in 2010. The margin was negatively impacted by Loblaw, partially offset by the improvement in adjusted EBITDA margin[(1)] at Weston Foods when compared to the same period in 2010.

Net Interest Expense and Other Financing Charges
Net interest expense and other financing charges in the fourth quarter of 2011 increased by $21 million to $108 million compared to the same period in 2010, primarily due to a $21 million decrease in non-cash income related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares.

Excluding the impact of this fair value adjustment, net interest expense and other financing charges in the fourth quarter of 2011 was flat when compared to the same period in 2010 reflecting the net impact of a decrease in interest expense due to the repayment by Loblaw of its $350 million, 6.50% MTN in the first quarter of 2011, offset by lower short term interest income due to lower cash and short term investment balances.

Income Taxes
The fourth quarter 2011 effective income tax rate decreased to 29.1% from 38.6% in the same period in 2010.

The decrease in the effective income tax rate in the fourth quarter of 2011 compared to the same period in 2010 was primarily due to the decrease in non-deductible items, a decrease in income tax expense related to certain prior year income tax matters and reductions in the federal and Ontario statutory income tax rates. Changes in federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options resulted in a charge of $18 million which was recorded in income tax expense in the fourth quarter of 2010.

Net Earnings Attributable to Shareholders of the Company
Net earnings attributable to shareholders of the Company for the fourth quarter of 2011 were $109 million compared to $111 million and basic net earnings per common share were $0.77 compared to $0.78 in the same period in 2010.

Adjusted basic net earnings per common share[(1)] in the fourth quarter of 2011 increased to $1.01 compared to $0.92 in the same period in 2010, an increase of $0.09 or 9.8%. The increase in the fourth quarter of 2011 was due to improved operating results at Weston Foods and a decrease in income tax expense, partially offset by a decline in adjusted operating income[(1)] at Loblaw compared to the same period in 2010. Adjusted basic net earnings per common share[(1)] excludes restructuring and other charges, a commodity derivatives fair value adjustment at Weston Foods, foreign currency translation gains and losses, the impact of share-based compensation net of equity derivatives, net insurance proceeds recorded by Weston Foods, a gain related to the sale of a portion of a Loblaw property, the effect of certain prior years' commodity tax matters at Loblaw and the impact of the accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares and the impact of federal tax legislation changes.

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

WESTON FOODS

(unaudited) ($ millions)	Quarters Ended Dec. 31, 2011	Quarters Ended Dec. 31, 2010
Sales	**$ 410**	$ 386
Operating income	**$ 57**	$ 57
Operating margin	**13.9%**	14.8%
Adjusted operating income[(1)]	**$ 56**	$ 48
Adjusted operating margin[(1)]	**13.7%**	12.4%
Adjusted EBITDA[(1)]	**$ 71**	$ 63
Adjusted EBITDA margin[(1)]	**17.3%**	16.3%

(1) See non-GAAP financial measures beginning on page 54.

For the fourth quarter of 2011, Weston Foods sales of $410 million increased 6.2% and volumes decreased 0.5% when compared to the same period in 2010. The acquisition of ACE on November 1, 2010 positively impacted sales growth and volume by approximately 1.4% and 0.8%, respectively, and foreign currency translation positively impacted sales growth by approximately 0.4%. Excluding the impact of the acquisition and foreign currency translation, sales increased 4.4% due to the positive impact of higher pricing across key product categories of 5.7%, partially offset by a decrease in volume of 1.3%. Price increases were implemented during 2011 to mitigate higher commodity and fuel costs.

In the fourth quarter, the following sales analysis excludes the impact of foreign currency translation:

- fresh bakery sales remained flat, as higher pricing was offset by lower sales volumes. The introduction of new products, such as *Gadoua MultiGo* Flat Bagels, Pitas and Tortillas, the *Première Fournée de Weston* line of artisan inspired breads and the recent relaunch of the *Wonder* and *Gadoua MultiGo* lines of breads that are free of artificial additives including preservatives, colours and flavours, contributed positively to branded sales in the fourth quarter of 2011;
- frozen bakery sales increased by approximately 7.6% and were positively impacted by the acquisition of ACE. Excluding the effects of this acquisition, frozen bakery sales increased by approximately 5.3% primarily due to higher pricing and higher sales volumes; and
- biscuit sales, principally wafers, ice-cream cones, cookies and crackers, increased approximately 13.8% mainly due to higher pricing in certain product categories combined with higher sales volumes. Volumes increased in the fourth quarter of 2011 compared to the same period in 2010 due to growth in cookie and cracker sales, partially offset by lower wafer sales.

Weston Foods operating income was $57 million in the fourth quarters of both 2011 and 2010. Operating margin was 13.9% for the fourth quarter of 2011 compared to 14.8% in the same period in 2010.

Adjusted operating income(1) increased by $8 million, or 16.7%, to $56 million in the fourth quarter of 2011 from $48 million in the same period in 2010. Adjusted operating margin(1) was 13.7% for the fourth quarter of 2011 compared to 12.4% in the same period in 2010.

Adjusted operating income(1) in the fourth quarter of 2011 was positively impacted by sales growth mainly as a result of higher pricing in key product categories and the acquisition of ACE, and by the benefits realized from productivity improvements and other cost reduction initiatives, which were partially offset by significant increases in commodity and fuel costs in the fourth quarter of 2011, when compared to the same period in 2010. Weston Foods adjusted operating income(1) excludes restructuring and other charges, a commodity derivatives fair value adjustment, the impact of share-based compensation net of equity derivatives and net insurance proceeds. See Section 18, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

Gross margin, excluding the impact of the commodity derivatives fair value adjustment, decreased in the fourth quarter of 2011 compared to the same period in 2010 primarily as a result of the increase in commodity costs as described above.

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. Restructuring activities related to these initiatives are ongoing and in the fourth quarter of 2011, a charge of $5 million (2010 – $3 million) was recorded in operating income. The charge recorded in the fourth quarter of 2011 related to the closures of two frozen bakery manufacturing facilities, one in Canada and one in the United States.

(1) See non-GAAP financial measures beginning on page 54.

Adjusted EBITDA[(1)] increased to $71 million in the fourth quarter of 2011 compared to $63 million in the same period in 2010. Adjusted EBITDA margin[(1)] increased in the fourth quarter of 2011 to 17.3% from 16.3% in the same period in 2010.

LOBLAW

(unaudited)	Quarters Ended	
($ millions)	**Dec. 31, 2011**	Dec. 31, 2010
Sales	**$ 7,373**	$ 7,119
Operating income	**$ 313**	$ 322
Operating margin	**4.2%**	4.5%
Adjusted operating income[(1)]	**$ 317**	$ 330
Adjusted operating margin[(1)]	**4.3%**	4.6%
Adjusted EBITDA[(1)]	**$ 487**	$ 482
Adjusted EBITDA margin[(1)]	**6.6%**	6.8%

Loblaw sales in the fourth quarter of 2011 increased by 3.6% to $7.4 billion compared to $7.1 billion in the same period in 2010. In the fourth quarter of 2011, the increase in retail sales compared to the same period in 2010 was impacted by the following factors:

- same-store retail sales growth was 2.5% (2010 – 1.6% decline), with an extra day of store operations having a positive impact estimated to be between 0.8% and 1.0%;
- sales growth in food was strong, partially driven by the extra day of store operations;
- sales growth in drugstore was flat;
- gas bar sales growth was strong as a result of higher retail gas prices and moderate volume growth;
- sales in general merchandise, excluding apparel, declined marginally due to continued reductions in square footage and optimization of range and assortment of products;
- sales growth in apparel was strong, partially driven by increased apparel square footage, including five new *Joe Fresh* free standing stores; and
- Loblaw experienced moderate average quarterly internal food price inflation during the fourth quarter of 2011, which was lower than the average quarterly national food price inflation of 5.2% (2010 – 1.5%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

Loblaw sales in the fourth quarter of 2011 were also positively impacted by an increase in Financial Services segment revenue of $29 million, or 24.6%, compared to the same period in 2010. The increase was driven by increased credit card transaction values resulting in higher interchange fee income and higher *PC* Telecom revenue as a result of the new Mobile Shop kiosk launch in the fourth quarter.

Loblaw operating income decreased by $9 million to $313 million in the fourth quarter of 2011 compared to $322 million in the same period in 2010. Operating margin was 4.2% for the fourth quarter of 2011 compared to 4.5% in the same period in 2010.

Loblaw adjusted operating income[(1)] decreased by $13 million to $317 million in the fourth quarter of 2011 compared to $330 million in the same period in 2010. Adjusted operating margin[(1)] was 4.3% compared to 4.6% in the same period in 2010. Retail and Financial Services segment adjusted operating income[(1)] decreased by $10 million and $3 million, respectively.

Gross profit generated by Loblaw's Retail segment decreased by $14 million to $1,569 million in the fourth quarter of 2011 compared to $1,583 million in the same period in 2010. The decline in gross profit percentage to 21.7% in the fourth quarter of 2011 from 22.6% in the same period in 2010 was primarily driven by a higher level of promotional activity and higher input costs outpacing internal food price inflation, a higher proportion of lower margin gas bar sales and increased transportation costs, partially offset by improved shrink. The $14 million decrease in gross profit was mainly due to increases in promotional pricing programs and

(1) See non-GAAP financial measures beginning on page 54.

transportation costs, partially offset by improved control label profitability, improved shrink and the growth and performance of Loblaw's franchise business.

The decreases in adjusted operating income[(1)] and adjusted operating margin[(1)] were driven by the decline in gross profit, costs of $23 million (2010 – nil) related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms under collective agreements ratified in the fourth quarter of 2010, incremental costs of $22 million related to the investments in IT and supply chain, start up costs of $16 million (2010 – nil) associated with the launch of Loblaw's *Joe Fresh* brand in the United States and a charge of $5 million (2010 – recovery of $7 million) for fixed asset impairments net of recoveries, related to asset carrying values in excess of recoverable amounts for specific retail locations, partially offset by improvements in the growth and performance of Loblaw's franchisees and continued labour, supply chain and other operating cost efficiencies.

Loblaw adjusted operating income[(1)] in the fourth quarter of 2011 was also negatively impacted by a decrease in Financial Services segment operating income of $3 million, or 14.3%, due to investments in the launch of *PC* Telecom's Mobile Shop kiosks and an increased credit card loss provision as a result of quarterly growth in the receivables program, partially offset by the increase in interchange fee income.

Loblaw adjusted operating income[(1)] excludes other charges and the impact of share-based compensation net of equity derivatives. See Section 18, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

Adjusted EBITDA[(1)] increased $5 million, or 1.0%, to $487 million in the fourth quarter of 2011 compared to $482 million in the same period in 2010. Adjusted EBITDA margin[(1)] decreased in the fourth quarter of 2011 to 6.6% compared to 6.8% in the same period in 2010.

Liquidity and Capital Resources

Cash flows from operating activities The Company's fourth quarter 2011 cash flows from operating activities were $669 million compared to $645 million in the same period in 2010. The increase when compared to the same period in 2010 was primarily due to the change in non-cash working capital and a decrease in income taxes paid, partially offset by the settlement of equity derivative contracts by GWL and Loblaw in the fourth quarter of 2011.

Cash flows used in investing activities The Company's fourth quarter 2011 cash flows used in investing activities were $469 million compared to $358 million in the same period in 2010. The increase when compared to the same period in 2010 was primarily due to an increase in security deposits, including the $125 million of cash collateralization for letter of credit facilities, partially offset by a reduction in fixed asset purchases. In the fourth quarter of 2010, short term investments decreased due to the Weston Foods business acquisitions. Capital expenditures for the fourth quarter of 2011 were $362 million (2010 – $447 million).

Cash flows used in financing activities The Company's fourth quarter 2011 cash flows used in financing activities were $225 million compared to $136 million in the same period in 2010. The increase when compared to the same period in 2010 was primarily due to GWL's and Loblaw's purchases of common shares for cancellation in the fourth quarter of 2011 and the lower net issuances of debt as detailed below.

During the fourth quarter of 2011, GWL and Loblaw completed the following financing activities:

- GWL issued $350 million of unsecured 3.78% MTN, Series 2-A;
- GWL repaid $300 million of 6.45% MTN;
- GWL issued $10 million of Series B Debentures;
- GWL issued 1,881 common shares on the exercise of stock options for cash consideration of a nominal amount;
- GWL purchased for cancellation 887,515 common shares for $60 million;
- Loblaw issued 54,908 common shares on the exercise of stock options for cash consideration of $2 million;
- Loblaw purchased for cancellation 415,719 common shares for $17 million;

(1) See non-GAAP financial measures beginning on page 54.

- PC Bank issued $5 million of GICs; and
- PC Bank repaid $3 million in GICs.

During the fourth quarter of 2010, GWL and Loblaw completed the following financing activities:
- GWL issued $10 million of Series B Debentures;
- *Eagle* issued $600 million of Series 2010 notes;
- PC Bank repurchased $600 million in securitized receivables; and
- PC Bank issued $11 million of GICs.

10. DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Executive Chairman (serving as Chief Executive Officer) and President (serving as Chief Financial Officer) have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2011.

11. INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is also responsible for establishing and maintaining adequate internal controls 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 IFRS.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Executive Chairman (serving as Chief Executive Officer) and President (serving as Chief Financial Officer) have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in "Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)". Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2011.

It should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

Changes in Internal Control over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on October 9, 2011 and ended on December 31, 2011 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management determined that no material changes occurred during this period.

12. ENTERPRISE RISKS AND RISK MANAGEMENT

The Company is committed to establishing a framework that ensures risk management is an integral part of its activities. To ensure the continued growth and success of the Company, risks are identified and managed through GWL's and Loblaw's Enterprise Risk Management ("ERM") programs. The GWL and Loblaw Boards of Directors, respectively, have approved an ERM policy and oversee the ERM program through approval of the Company's risks and risk prioritization. The ERM program assists all areas of the business in managing appropriate levels of risk tolerance by bringing a systematic approach, methodology and tools for evaluating, measuring and monitoring key risks. The results of the ERM program and other business planning processes are used to identify emerging risks to the Company, prioritize risk management activities and develop a risk-based internal audit plan.

Risk is not eliminated through the ERM program. Risks are identified and managed within understood risk tolerances. The ERM program is designed to:

- promote a culture of awareness of risk management and compliance within the Company;
- facilitate corporate governance by providing a consolidated view of risks across the Company and insight into the methodologies for identification, assessment, measurement and monitoring of the risks;
- assist in developing consistent risk management methodologies and tools across the organization;
- ensure that resources are acquired economically, used efficiently and adequately protected; and
- enable the Company to focus on its key risks in the business planning process and optimize financial performance through responsible risk management.

Risk identification and assessments are important elements to the Company's ERM framework. An annual ERM assessment is completed to assist in the update and identification of reputational, operational or financial risks affecting the Company and to effectively prioritize the risks. The annual ERM assessment is carried out primarily through interviews and risk assessments with senior management throughout the Company. Risks are assessed and evaluated based on the Company's vulnerability to the risk and the potential impact that the underlying risk would have on the Company's ability to execute its strategies and achieve its objectives. Risk owners are assigned relevant risks and metrics are developed for the top risks for ongoing monitoring. At least semi-annually, management provides an update to the GWL or Loblaw Audit Committee of the status of the top risks based on significant changes from the prior update, anticipated impacts in future quarters and significant changes in key risk metrics. In addition, the long term (1-3 year) risk level is assessed in order to monitor potential long term impacts on the risk which may assist in risk mitigation planning activities.

The Internal Audit and Risk Management groups manage the ERM programs through the development of the risk framework and methodologies, completion of the annual ERM assessment, continuous monitoring of the key risks and reporting to the Audit Committees. The accountability for oversight of the management of each risk is allocated by the GWL or Loblaw Audit Committee to either the full Board or to a Committee of the Board.

The reputational, operating and financial risks and risk management strategies are discussed below. Any of these risks has the potential to negatively affect the Company's financial performance. The Company has risk management strategies, including insurance programs, that are intended to mitigate the potential impact of these risks. However, these strategies do not guarantee that the associated risks will be mitigated or not materialize or that events or circumstances will not occur that could negatively affect the reputation, operations or financial condition or performance of the Company.

12.1 OPERATING RISKS AND RISK MANAGEMENT

Operating Risks

The following is a summary of the Company's operating risks which are discussed in detail below:

Information Technology and Other Systems Implementations	Privacy and Information Security
Strategy Development and Execution	Commodity Prices
Change Management and Process Execution	Contract Management and Records Retention
Information Integrity and Reliability	Franchise and Independent Business Relationships
Competitive Environment	Vendor Management and Third-Party Service Providers
Economic Environment	Regulatory and Tax
Food Safety and Public Health	Workplace Health and Safety
Employee Retention and Succession Planning	Environmental
Distribution and Supply Chain	Trademark and Brand Protection
Labour Relations	Defined Benefit Pension Plan Contributions
Merchandising	Multi-Employer Pension Plans
Inventory Management	Real Estate and Store Renovations
Disaster Recovery and Business Continuity	Ethical Business Conduct

Information Technology and Other Systems Implementations

Loblaw continues to undertake a major upgrade of its IT infrastructure. In 2010, Loblaw began to implement a new IT system. This project, along with other systems implementations planned for 2012 and beyond, constitutes one of the largest technology infrastructure programs ever implemented by Loblaw and is fundamental to its long term growth strategies. During 2011, Loblaw combined and streamlined its IT and other significant system implementations and successfully rolled out the final foundational waves of its IT system implementation to its merchandising organization, which included a number of critical operating enhancements and expanded operating functionality related to its merchandising product category listings. In addition, during 2011, Loblaw successfully added operational master data and substantially built the integrated platform to handle increased transactional activity in the IT system. Completing the IT system deployment will require continued focus and significant investment. The failure to successfully migrate from legacy systems to the new IT system could negatively affect Loblaw's reputation, and the operations and financial performance of the Company. Failure or disruption in Loblaw's current IT systems during the implementation of the new IT and other systems may result in a lack of relevant and reliable information to enable management to effectively achieve its strategic plan or manage the day-to-day operations of the business, causing significant disruptions to the business and potential financial losses. In addition, the failure to implement appropriate processes to support the IT system may result in inefficiencies and duplication in current processes.

Strategy Development and Execution

The Company undertakes from time to time acquisitions and dispositions that meet its strategic objectives. The Company holds significant cash and short term investments and is continuing to evaluate strategic opportunities for the use or deployment of these funds. The use or deployment of the funds and the execution of the Company's capital plans could pose a risk if they do not align with the Company's strategic objectives or if the Company experiences integration difficulties on the acquisition of any businesses. In addition, the Company may not be able to realize upon the synergies, business opportunities and growth prospects expected from any such investment opportunities or from the execution of the Company's strategies. Finally, any acquisition or divestiture activities may present unanticipated costs and managerial and operation risks, including the diversion of management's time and attention from day-to-day activities. If the Company's strategies are not effectively developed and executed, it could negatively affect the reputation, operations and financial performance of the Company.

Change Management and Process Execution

Significant initiatives within the Company, including the execution of Loblaw's IT infrastructure plan, are underway. The success of these initiatives is dependent on management effectively realizing the intended benefits and effectively executing the related processes. To assist in the management of change throughout the organization, the Company has positioned teams to support its major change initiatives. These teams are dedicated to business change management activities with a focus on integration of the business process and systems changes through communication, training and other change events.

In 2011, Loblaw focused on key merchandising and supply chain systems and process implementation as well as ensuring the smooth transition of the organizational structure to one centred on Loblaw's two divisions, discount and conventional. Much attention and effort was spent on training employees to prepare for and execute new workflows. Effective change management and focus on leadership will continue to be key drivers to successfully implementing these organizational, systems and process changes.

Ineffective change management or inexperienced employees leading change management could result in disruptions to the operations of the business or affect the ability of the Company to implement and achieve its long term strategic objectives. This could result from a lack of clear accountabilities, communication, training or lack of requisite knowledge, which in turn may cause employees to act in a manner which is inconsistent with Company objectives. Failure to properly execute the various processes may increase the risk of customer dissatisfaction, which in turn could negatively affect the reputation, operations and financial performance of the Company. The failure to properly integrate several large, complex initiatives in a timely manner will adversely impact the operations of the Company. If employees are not able to develop and perform new roles, processes and disciplines, the Company may not always achieve the expected cost savings and other benefits of its initiatives.

Information Integrity and Reliability
To support the current and future requirements of the business the Company is reliant on IT systems. These systems are essential to provide management with the appropriate information for decision making, including its key performance indicators, and when necessary must be appropriately supported through systems upgrades to and maintenance of infrastructure.

Although Loblaw has controls in place over the conversion of data, the process of converting data from legacy systems to the new IT and other systems increases the risk of poor data integrity and reliability if the data is not accurate and complete upon conversion. In addition, for the next few years Loblaw will operate in new and old systems at the same time. Ensuring that the data is flowing accurately between all systems and ensuring the integrity of this data will be critical to maintain the integrity and reliability of Loblaw's information. Ownership of data management is essential to ensure ongoing reliability and relevancy of the data. Any failure or disruption of these systems during the data conversion process for the IT system could negatively affect Loblaw's reputation and operations and the financial performance of the Company. Lack of relevant, reliable and accessible information that enables management to effectively manage the business may preclude the Company from optimizing its overall performance.

Competitive Environment
Weston Foods' competitors include multi-national food processing companies, as well as national and smaller-scale bakery operations in Canada and the United States. Loblaw's competitors include traditional supermarket operators, as well as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drugstore and general merchandise. Others remain focused on supermarket-type merchandise.

The Company is also subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery market. Some of these competitors have extensive resources that allow them to compete vigorously. Several of these competitors operate in a non-union environment. The Company's predominantly unionized workforce environment may reduce the ability of the Company to compete on labour costs or may adversely impact the Company's ability to react to the competition in a timely manner. In addition, competitors could acquire or develop partnerships with other businesses, which could increase their market share or otherwise improve their competitiveness. If significant acquisitions or alliances are undertaken by competitors, the Company could lose opportunities for growth and partnerships in the market or otherwise experience adverse consequences.

The Company reviews and monitors operating plans and results, including market share in its reportable operating segments. When necessary, the operating segments will modify their operating strategies, including but not limited to, building, acquiring or increasing capacity in production facilities, closing underperforming assets, relocating stores or reformatting them under a different banner, and reviewing and adjusting pricing, product offerings, brand positioning and marketing programs to take into account competitive activity.

Increased competition and pressures on growth and pricing could adversely affect the Company's ability to achieve its objectives. The Company's inability to effectively predict market activity or compete effectively with its current or future competitors could result in, among other things, reduced market share and lower pricing in response to its competitors' pricing activities. Failure by Weston Foods or Loblaw to sustain their competitive position could negatively affect the financial performance of the Company.

Economic Environment
Economic factors that impact consumer spending patterns could deteriorate or remain unpredictable due to global, national or regional economic volatility. These factors include high levels of unemployment, household debt, changes in interest rates, changes in inflation, changes in exchange rates, changes in commodity prices and access to consumer credit. Management regularly monitors global and domestic economic conditions and estimates their impact on the Company's operations and incorporates these estimates in short term operating and longer term strategic decisions. Despite these activities, one or more of these factors could negatively affect the Company's sales and margins. Inflationary trends are unpredictable and changes in the rate of inflation or deflation will affect consumer prices, which in turn could negatively affect the financial performance of the Company.

Food Safety and Public Health
The Company is subject to risks associated with food safety and general merchandise product defects. These risks may arise as part of the design, procurement, production, packaging, storage, distribution, preparation and display of products, including the Company's control label and contract manufactured products. A majority of the Company's sales are generated from food products and thus the Company could be vulnerable in the event of a significant outbreak of food-borne illness or other public health concerns related to food products. The occurrence of such events or incidents could result in harm to the Company's customers, negative publicity or damage to the Company's brands and could lead to unforeseen liabilities from legal claims or otherwise. In addition, failure to trace or locate any contaminated or defective products and ingredients may affect the Company's ability to be effective in a recall situation. Any of these events, as well as failure to maintain the cleanliness and health standards at Loblaw's store level, including pest control, could negatively affect the reputation, operations and financial performance of the Company.

Incident management processes are in place to manage such events, should they occur. These programs identify risks, provide clear procedures for communication to employees and consumers and are aimed at ensuring that potentially harmful products are expeditiously removed from inventory and are not available for sale.

The Company also has extensive food safety procedures and training programs which address safe food handling and preparation standards. The Company endeavours to employ current best practices for the procurement, production, storage, distribution, preparation and display of food products and proper food product labelling. Also, it actively supports customer awareness of safe food handling and healthy choices.

The Company places special focus on applying a safety and quality management system to ensure Weston Foods' products and Loblaw's control label products meet all food safety and regulatory requirements. The ability of these programs and procedures to address such events is dependent on their successful execution. The existence of these procedures does not mean that the Company will in all circumstances be able to mitigate the underlying risks and any event related to these matters has the potential to negatively affect the reputation, operations and financial performance of the Company.

Employee Retention and Succession Planning
Effective succession planning for senior management and employee retention are essential to sustaining the growth and success of the Company. In addition, loss of talent to the competition can be a significant risk to the Company's business strategy. Effective retention strategies will be necessary due to the significant changes, potential increase in workload and marketability of those employees who have developed specialized skills during the implementation of Loblaw's IT system and other significant initiatives in the Company. If the Company is not effective in establishing appropriate succession planning processes and retention strategies, it could lead to a lack of requisite knowledge, skills and experience on the part of management. This, in turn, could adversely affect the Company's ability to execute its strategies and negatively affect its operations and financial performance.

Distribution and Supply Chain
The need to invest in and improve the Company's supply chain may adversely affect the Company's capacity to effectively and efficiently attract and retain current and potential customers. Loblaw is entering the final phase of its supply chain renewal program in 2012, which will include the integration of supply chain systems with the IT system. Although this initiative is expected to result in improved service levels and product availability for Loblaw's stores, the scale of the change and the implementation of new processes could cause disruption in the flow of goods to stores, which would negatively affect the operations and financial performance of the Company. In addition, the integration of new supply chain systems with Loblaw's IT system could cause disruptions to the network if not properly executed, which would also negatively affect the operations and financial performance of the Company.

Labour Relations
A significant portion of the Company's workforce is unionized. Renegotiating collective agreements may result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. There can be no assurance as to the outcome of these negotiations or the timing of their completion. Although the Company attempts to mitigate work stoppages and disputes through early

negotiations, work stoppages or slowdowns remain possible, which could negatively affect the reputation, operations and financial performance of the Company.

In 2011, Loblaw began transitioning some of its Ontario conventional stores to the new operating terms of the collective agreements ratified in 2010. Loblaw has offered counselling services to the colleagues affected. Despite the continued support provided by Loblaw through this transition, employee performance may be adversely impacted, which could negatively affect Loblaw's reputation and operations and the financial performance of the Company.

Merchandising
Loblaw may have goods and services that customers don't want or need, are not reflective of current trends in customer tastes, habits, or regional preferences, are priced at a level customers are not willing to pay or are late in reaching the market. Innovation is critical to the Company in order to respond to customer demands and to stay competitive in the market place. In addition, the Company's operations as they relate to food, sales volumes and product mix are impacted to some degree by certain holiday periods in the year. If merchandising efforts are not effective or responsive to customer demand, the operations and financial performance of the Company could be negatively affected.

Inventory Management
Inappropriate inventory management may lead to excess inventory or a shortage of inventory which may impact customer satisfaction and overall financial performance. Loblaw may experience excess inventory that cannot be sold profitably or which could increase levels of inventory shrink, which in turn could negatively impact the Company's financial performance. Loblaw focuses on reducing inventory levels and early identification of inventory at risk. New information systems are being implemented that are expected to improve demand forecasting. In order to reduce the amount of excess inventory, Loblaw monitors the impact of customer trends. Despite these efforts, Loblaw may experience excess inventory that cannot be sold profitably, which could negatively affect the operations and financial performance of the Company.

Disaster Recovery and Business Continuity
The Company's ability to continue critical operations and processes could be negatively impacted by adverse events resulting from various incidents, including severe weather, work stoppages, prolonged IT failure, terrorist activities, power failures, border closures, a pandemic or other national or international catastrophe. The Company has an enterprise wide business continuity program which is continually updated. The existence of the program reduces, but does not completely mitigate the risk of business interruptions, crises or potential disasters, which could negatively affect the reputation, operations and financial performance of the Company.

Privacy and Information Security
The Company is subject to various laws regarding the protection of personal information of its customers, cardholders and employees and has adopted a Privacy Code setting out guidelines for the handling of personal information. Any failure of the Company to comply with these laws could result in damage to its reputation and negatively affect financial performance. The Company's information systems contain personal information of customers, cardholders and employees. Any failures or vulnerabilities in these security systems or non-compliance with information security standards, including those in relation to personal information belonging to the Company's customers and employees, could negatively affect the reputation, operations and financial performance of the Company. Information security risks will also arise in the implementation of Loblaw's IT strategic plan. The strategic plan includes the upgrading of information security systems to adhere to information security standards by instituting more stringent security system protocols and corporate information security policies. A failure in Loblaw's information systems or non-compliance with information security standards, including those in relation to personal information belonging to Loblaw's customers, cardholders and employees could negatively affect the reputation and operations of Loblaw and could negatively affect the financial performance of the Company.

Commodity Prices
Weston Foods costs are directly impacted by fluctuations in the prices of commodity-linked raw materials such as wheat flours, sugars, vegetable oils, cocoa powders and chocolate. Loblaw is also exposed to commodity prices as a result of the indirect link between commodities and the cost of its consumer products. In addition,

both Weston Foods and Loblaw are exposed to increases in the prices of energy in operating, in the case of Weston Foods, its bakeries and distribution networks, and in the case of Loblaw, its stores and distribution networks. Both Weston Foods and Loblaw use purchase commitments and derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices. Despite these strategies, high commodity prices could negatively affect the financial performance of the Company.

Contract Management and Records Retention
A lack of effective processes for the tendering, drafting, review and approval of Company contracts increases the risk of financial losses to the business. In addition, inefficient, ineffective or incomplete document management and retention policies, procedures and practices increase the risk of incomplete Company records and potential non-compliance with laws and regulations, which could negatively impact the Company's reputation and financial performance. The Company maintains specific policies and procedures related to contract management and records retention in order to mitigate potential risks. These policies and procedures cannot, however, mitigate all risk and it remains possible that incomplete or ineffective records could negatively affect the reputation and financial performance of the Company.

Franchise and Independent Business Relationships
A significant portion of the Company's revenues and earnings arise from franchisee type relationships. Franchisees and independent operators are independent businesses and, as such, their operations may be negatively affected by factors beyond the Company's control, which in turn may negatively affect the reputation, operations and financial performance of the Company. Revenues and earnings could also be negatively affected, and Loblaw's reputation could be harmed, if a significant number of retail franchisees were to experience operational failures, health and safety exposures or were unwilling or unable to pay Loblaw for products, rent or other fees. Loblaw's franchise system is also subject to franchise legislation enacted by a number of provinces. Any new legislation or failure to comply with existing legislation could negatively affect operations and could add administrative costs and burdens, any of which could affect the Company's relationship with its franchisees and independent operators. Loblaw provides various services to the franchisees to assist with management of store operations and dedicated personnel manage Loblaw's obligations to its franchisees. These relationships with franchisees and independent operators could pose significant risks if they are disrupted which could negatively affect the reputation, operations and financial performance of the Company. Supply chain or system changes by the Company could cause or be perceived to cause disruptions to franchise operations and could result in negative effects on franchisee financial performance. In addition, reputational damage or adverse consequences for Loblaw, including litigation and disruption to revenue from franchise stores could result.

Vendor Management and Third-Party Service Providers
Certain aspects of the Company's business rely on third-party providers of goods and services. Although contractual arrangements are put in place with these vendors and suppliers, the Company has no direct influence over how the companies are managed. Negative events affecting the vendors or suppliers could in turn negatively affect the reputation, operations and financial performance of the Company. Inefficient, ineffective or incomplete vendor management strategies, policies and/or procedures may adversely impact the Company's ability to optimize financial performance, meet customer needs or control costs and quality.

Vendor production capacity or IT capabilities may limit the Company's ability to service its customers or implement new processes to increase efficiencies and consistencies. Sourcing from developing markets also results in enhanced risk.

Certain of Weston Foods' and Loblaw's control label products are manufactured under contract with third-party suppliers. Product development and sourcing of Loblaw's control brand apparel products is conducted by a third party. Ineffective selection, contract terms, or relationship management could impact the Company's ability to source Weston Foods' third-party manufactured products and Loblaw's control brand products, to have products available for customers, to market to customers or to operate efficiently and effectively.

The Company also uses third-party logistics services including the operation of dedicated warehouse and distribution facilities and third-party common carriers. The Company maintains a strategy of multiple sources for logistics providers so that in the event of a disruption of service from one supplier another supplier can be used. However, disruption in these services is possible which could interrupt the delivery of merchandise to stores thereby negatively affecting the operations and financial performance of the Company.

The Company continues to implement practices and performance expectations with its vendor base, including asking vendors to support sales plans and cost reduction initiatives and to align with major program changes. Failure to effectively implement these programs will have a negative impact on the Company's ability to realize the expected benefits and could negatively affect the operations and financial performance of the Company.

President's Choice Financial banking services are provided by a major Canadian chartered bank. PC Bank uses third-party service providers to process credit card transactions, operate call centres and operationalize certain risk management strategies for the *President's Choice Financial* MasterCard®. To minimize operating risk, PC Bank and Loblaw actively manage and monitor their relationships with all third-party service providers. In addition, PC Bank has developed an outsourcing risk policy and has established a vendor governance team that provides regular reports on vendor governance and annual vendor risk assessments. Despite these activities, a significant disruption in the services provided by the chartered bank or third-party service providers would negatively affect the financial performance of PC Bank and the Company.

The Company relies on third parties for investment management, custody and other services for its cash equivalents, short term investments, security deposits and pension assets. Any disruption in the services provided by these suppliers could adversely affect the return on these assets or the liquidity of the Company.

Regulatory and Tax

Changes to any of the laws, rules, regulations or policies related to the Company's business including income, commodity and other taxes, and the production, processing, preparation, distribution, packaging and labelling of products could have an adverse impact on the Company's financial or operational performance. New accounting pronouncements introduced by appropriate authoritative bodies may also impact the Company's financial results including the Company's transition to IFRS. In the course of complying with such changes, the Company may incur significant costs. Changing regulations or enhanced enforcement of existing regulations could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and capacity to efficiently conduct business. Failure by the Company to comply with applicable laws, rules, regulation and policies could subject it to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could have an adverse effect on the Company's financial results. PC Bank operates in a highly regulated environment, and failure to comply, understand, acknowledge and effectively respond to the regulators could result in monetary penalties, regulatory intervention and reputational damage. Taxing authorities may also disagree with the positions and conclusions taken by the Company in its filings with such authorities. An unfavourable resolution to any such dispute could materially affect the reputation and financial performance of the Company.

In 2010 and 2011, the provincial governments of Quebec, Ontario, Alberta, Saskatchewan, Nova Scotia and British Columbia introduced amendments to the regulation of generic prescription drug prices paid by provincial governments pursuant to public drug benefit plans. Under these amendments, costs of generic drugs paid by the provincial drug plans are being reduced, and in Ontario, the current system of drug manufacturers paying professional allowances to pharmacies will be eliminated. The amendments also reduce the costs of generic drugs purchased out-of-pocket or through private employer drug plans. Loblaw continues to identify opportunities to mitigate the impact of these amendments, including the introduction of programs to add new services and enhance existing services to attract customers. The amendments could have an adverse effect on the financial performance of the Company if Loblaw is not able to effectively mitigate their negative impact.

During 2010, GWL received a reassessment from the CRA challenging GWL's characterization of a gain reported in a previous year's tax return filing. Should the CRA be successful in its assertion, the maximum exposure to the Company's net earnings would be approximately $64 million. GWL is vigorously defending its filing position. No amount has been provided for in the Company's financial statements.

Workplace Health and Safety
The failure of the Company to adhere to appropriate health and safety procedures and to ensure compliance with applicable laws and regulations could negatively affect the operations and financial performance of the Company.

The Company has established a national health and safety policy, a national health and safety management system and an injury reduction plan. Periodic updates are provided by health and safety colleagues to the executive team and quarterly updates are made to the Environmental, Health and Safety Committee of the Board. Loblaw has begun to execute its plan to establish a corporate wellness program. These initiatives are designed to reduce the risk that an incident or series of incidents could harm the safety of one or more of its employees and negatively impact the reputation and financial performance of the Company.

Environmental
The Company maintains a large portfolio of real estate and facilities and is subject to environmental risks associated with the contamination of such properties and facilities, whether by previous owners or occupants, neighbouring properties or from its own operations.

The Company operates a number of underground storage tanks, the majority of which are used for the retailing of automotive fuel or for its distribution and supply chain transport fleets. Contamination resulting from leaks from these tanks is possible. The Company employs monitoring and testing programs, in addition to risk assessments and audits, to minimize the potential for subsurface impacts from fuel losses. The Company also operates refrigeration equipment in Weston Foods' production facilities and in Loblaw's stores and distribution centres to preserve perishable products as they pass through the supply chain and ultimately into the hands of the customer. These systems contain refrigerant gases which could be released if the equipment fails or leaks. A release of these gases could have adverse effects on the environment.

In recent years, provincial and municipal governments have introduced legislation that imposes liabilities on retailers, brand owners and importers for costs associated with recycling and disposal of consumer goods packaging and printed materials distributed to consumers. This is a growing trend and the Company expects to be subject to increased costs associated with these laws.

The Company has environmental management programs and has established assessment, compliance, monitoring and reporting policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements and protecting the environment. Despite these mitigation activities, the Company could be subject to increased or unexpected costs associated with environmental incidents and the related remediation activities, including litigation and regulatory related costs, all of which could negatively affect the reputation and financial performance of the Company.

Consumer trends are increasingly demanding that retailers sell products with less impact on the environment and that their operations demonstrate environmentally responsible practices. As set out in its annual Corporate Social Responsibility Report, Loblaw sets environmental goals and monitors its progress towards their achievement. If the Company fails to meet consumer demand in this area or otherwise fails to adequately address the environmental impact of its business practices, its reputation and financial performance could be negatively affected.

Trademark and Brand Protection
A decrease in value of the Company's trademarks, banners or control brands, as a result of adverse events, changes to the branding strategies or otherwise, could negatively impact the reputation, operations and financial performance of the Company.

Defined Benefit Pension Plan Contributions

The Company manages the assets in its registered funded defined benefit pension plans by engaging professional investment managers who operate under prescribed investment policies and procedures in respect of permitted investments and asset allocations. The future contributions to the Company's registered funded defined benefit pension plans are impacted by a number of variables, including the investment performance of the plan assets and the discount rate used to value the liabilities of the plans. The Company regularly monitors and assesses plan performance and the impact of changes in participant demographics, changes in capital markets and other economic factors that may impact funding requirements, net defined benefit costs and actuarial assumptions. If capital market returns are below assumed levels, or if the discount rates do not increase, the Company may be required to make contributions to its registered funded defined benefit pension plans in excess of those currently expected, which in turn could negatively affect the financial performance of the Company.

Multi-Employer Pension Plans

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits to union employees pursuant to provisions of collective bargaining agreements. Approximately 38% (2010 – 39%) of employees of the Company and of its independent franchisees participate in these plans. The administration of these plans and the investment of their assets are controlled by a board of independent trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company may have a representative on the board of trustees of these multi-employer pension plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements; however, poor performance of these plans could have an adverse impact on the Company's employees and former employees who are members of these plans.

Loblaw, together with its independent franchisees, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), with approximately 53,000 (2010 – 54,000) employees as members. In 2011, Loblaw contributed $49 million (2010 – $51 million) to CCWIPP. At the end of 2011, the CCWIPP actuarial accrued benefit obligations greatly exceeded the value of the assets held in trust. As a result of this underfunding, CCWIPP received approval from the pension regulator to reduce the accrued benefits and future service benefits of certain participants. Further benefit reductions would negatively affect the retirement benefits of Loblaw's employees, which in turn could negatively affect their morale and productivity and, in turn, could negatively affect the Company's reputation.

Real Estate and Store Renovations

Loblaw maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances Loblaw's operating flexibility by enabling Loblaw to introduce new departments and services that could be precluded under third-party operating leases. Additionally, as part of its ongoing review of the performance of its stores, Loblaw from time to time undertakes store renovations. Efforts are made to minimize the duration of these projects in order to limit the disruption at store level. However, the Company's revenues and financial performance will be negatively impacted if such renovations and remodelling are carried out in a manner that is disruptive to Loblaw's ongoing store operations, result in a poor customer experience or do not deliver on plans.

Ethical Business Conduct

The Company has adopted a Code of Business Conduct which employees and directors of the Company are required to acknowledge on a regular basis. The Company encourages reporting of unethical conduct and has established a toll-free anonymous response line, which can be used by employees to report suspected accounting, internal control or auditing irregularities and unethical behaviour impacting the Company. Loblaw has also adopted a Vendor Code of Conduct which outlines its ethical expectations to its vendor community in a number of areas, including social responsibility. Any failure of the Company or its vendors to adhere to ethical business conduct policies could negatively affect the reputation and financial performance of the Company.

12.2 FINANCIAL RISKS AND RISK MANAGEMENT

Financial Risks

The following is a summary of the Company's financial risks which are discussed in detail below:

Foreign Currency Exchange Rates	Common Share Prices
Credit	Liquidity and Capital Availability
Interest Rates	Derivative Instruments

Foreign Currency Exchange Rates

The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in foreign operations in the United States, and its foreign subsidiaries held by Dunedin and certain of its affiliates with a functional currency that is the same as that of the Company. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to foreign currency translation gains and losses. Those gains and losses arising from the translation of the U.S. dollar denominated assets of foreign subsidiaries with a functional currency that is the same as that of the Company are included in operating income, while translation gains and losses on the net investment in foreign operations in the United States are recorded in accumulated other comprehensive loss. In addition, revenues and expenses of all foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. An appreciating Canadian dollar relative to the U.S. dollar will negatively impact year-over-year changes in reported sales, operating income and net earnings, while a depreciating Canadian dollar relative to the U.S. dollar will have the opposite impact.

Loblaw is exposed to foreign currency exchange rate variability, primarily on its U.S. dollar denominated cash and cash equivalents, short term investments and security deposits held by Glenhuron, foreign denominated and foreign currency based purchases in trade and other payables, and U.S. dollar private placement notes included in long term debt. Loblaw and Glenhuron have cross currency swaps and foreign currency forward contracts that partially offset their respective exposure to fluctuations in foreign currency exchange rates. Cross currency swaps are transactions in which interest payments and principal amounts in one currency are exchanged against the receipt of interest payments and principal amounts in a second currency. Despite these mitigation strategies, the Company's financial performance could be negatively impacted by foreign currency variability.

Credit

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. Exposure to credit risk relates to derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, Loblaw's franchise loans receivable, accounts receivable from Loblaw's franchisees, other receivables from Weston Foods' customers and suppliers and Loblaw's vendors, associated stores and independent accounts, and pension assets held in the Company's defined benefit plans.

The risk related to derivative instruments, cash and cash equivalents, short term investments and security deposits is reduced by policies and guidelines that require that the Company only enter into transactions with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and by placing minimum and maximum limits for exposures to specific counterparties and instruments. PC Bank manages its credit card receivable risk by employing stringent credit scoring techniques, actively monitoring the credit card portfolio, and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers. Loblaw's franchise loans receivable, accounts receivable from Loblaw's franchisees, and other receivables from Weston Foods' customers and suppliers and Loblaw's vendors, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements. Credit risk associated with investments in the Company's defined benefit pension plans is described in the Defined Benefit Pension Plan Contributions discussion in Section 12.1, "Operating Risks and Risk Management", of this MD&A.

Despite the mitigation strategies described above, it is possible that the Company's financial performance could be negatively affected by the failure of a counterparty to fulfill its obligations.

Interest Rates

The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and financial instruments, net of cash and cash equivalents, short term investments and security deposits. GWL and Loblaw manage interest rate risk by monitoring their respective mix of fixed and floating rate debt net of cash and cash equivalents, short term investments and security deposits, and taking action as necessary to maintain an appropriate balance. Despite these mitigation strategies, changes in interest rates could negatively affect the Company's financial performance.

Common Share Prices

GWL and Loblaw are exposed to common share market price risk as a result of the issuance to certain employees of stock options, to the extent that they are repurchased by GWL and Loblaw on exercise, and Restricted Share Units ("RSU"). RSUs negatively impact operating income when the common share prices increase and positively impact operating income when the common share prices decline. GWL and Glenhuron are parties to equity derivative contracts, which allow for settlement in cash, common shares or net settlement. These derivatives change in value as the market prices of the GWL and Loblaw common shares change and provide a partial offset to fluctuations in RSU plan expense or income. Despite this partial offset, increases in the common share prices could negatively affect the Company's financial performance.

Changes in the Loblaw common share price impact the Company's net interest expense and other financing charges. In 2001, WHL entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of $88.14 (2010 – $84.09) per Loblaw common share as at year end 2011. The forward matures in 2031 and will be settled in cash as follows: WHL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of WHL under this forward is secured by the underlying Loblaw common shares. WHL recognizes a non-cash charge or income, which is included in consolidated net interest expense and other financing charges, representing the fair value adjustment of WHL's forward sale agreement for 9.6 million shares. The fair value adjustment in the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw shares it owns. At maturity, if the forward price is greater than (less than) the market price, WHL will receive (pay) cash equal to the difference between the notional value and the market value of the forward contract. Any cash paid under the forward contract could be offset by the sale of Loblaw shares.

Liquidity and Capital Availability

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. Difficulty accessing capital markets could impair the Company's capacity to grow, execute its business model and generate financial returns.

Liquidity and capital availability risks are mitigated by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions, by diversifying sources of funding, including Loblaw's Credit Facility, and maintaining a well diversified maturity profile of its debt and capital obligations.

Despite these mitigation strategies, if GWL, Loblaw or PC Bank's financial performance and condition deteriorate or downgrades in GWL or Loblaw's current credit ratings occur, the ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent risks that may negatively affect GWL and Loblaw's access and ability to fund their financial and other liabilities.

Derivative Instruments

Over-the-counter derivative instruments offset certain risks. Policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. The fair value of derivative instruments is subject to changing market conditions which could negatively impact the financial performance of the Company.

13. RELATED PARTY TRANSACTIONS

The Company's majority shareholder is Mr. W. Galen Weston, who controls the Company directly and indirectly through private companies which he controls, including through Wittington Investments, Limited ("Wittington"). The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Transactions between the Company and its consolidated entities have been eliminated on consolidation and are not disclosed below.

In 2011, rental payments to Wittington by the Company amounted to approximately $4 million (2010 – $4 million). As at December 31, 2011, December 31, 2010 and January 1, 2010, there were no rental payments outstanding.

In 2011, inventory purchases from Associated British Foods plc, a related party by virtue of Mr. W. Galen Weston being a director of such entity, amounted to approximately $26 million (2010 – $25 million). As at year end 2011, $2 million (December 31, 2010 – $4 million; January 1, 2010 – $2 million) was included in trade and other payables relating to these inventory purchases. Effective December 12, 2011, Mr. Weston resigned from his role as director of Associated British Foods plc; however, he continues to be a director of its parent company and as a result, Associated British Foods continues to be a related party of the Company.

Post-Employment Benefit Plans

Contributions made by the Company to the Company's post-employment benefit plans are disclosed in note 24 to the consolidated financial statements.

Income Tax Matters

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

Compensation of Key Management Personnel

The Company's key management personnel are comprised of certain members of the executive team of GWL, Loblaw, Weston Foods and Wittington, as well as members of the Boards of Directors of GWL, Loblaw and Wittington to the extent that they have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company.

Annual compensation of key management personnel that is directly attributable to the Company was as follows:

	2011	2010
Wages, salaries and other short term employee benefits	**$ 17**	$ 17
Share-based compensation	**9**	13
Total compensation	**$ 26**	$ 30

14. CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions in applying the Company's accounting policies, which have an effect on the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Management continually evaluates the estimates and assumptions it uses. These judgments, estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that the Company may undertake in the future. Actual results could differ significantly from these estimates.

The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain and changes in these estimates and assumptions could materially impact the consolidated financial statements.

Allowance for Credit Card Losses
Loblaw's allowance for credit card losses is established to absorb probable credit losses on the aggregate exposures in its Financial Services segment credit card portfolio. This allowance is measured based upon statistical analysis of past and current performance, aging, arrears status, the level of allowance already in place and management's judgment around economic conditions and other trends specific to its customer base, including but not limited to bankruptcies. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

Additional information on credit card receivables is provided in note 9 to the consolidated financial statements.

Inventories
The Company's inventories are stated at the lower of cost and estimated net realizable value. Net realizable value is estimated as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable 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 prices, the amount of the write-down previously recorded is reversed.

During retail store inventory counts, Loblaw is required to make estimations or judgments in the determination of (i) discount factors used to convert inventory to cost after a physical count at retail has been completed and (ii) estimated inventory losses, or shrink, occurring between the last physical inventory count and the balance sheet date.

Inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is determined at the category level, is calculated in relation to historical gross margins and is reviewed on a regular basis for reasonableness. Inventory shrink, which is calculated as a percentage of sales, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet date. To the extent that actual losses experienced vary from those estimated, both inventories and operating income will be impacted. Changes or differences in these estimates may result in changes to inventories on the consolidated balance sheet and a charge or credit to operating income in the consolidated statement of earnings.

Additional information on inventories is provided in note 10 to the consolidated financial statements.

Fixed Assets
Fixed assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. When there is an indication of impairment, the factors that most significantly influence the impairment estimate are the determination of future cash flows and fair value assessments.

An impairment loss is measured as the amount by which the fixed assets carrying value exceeds the recoverable amount. The recoverable amount is the greater of a cash generating unit's ("CGU") value in use and its fair value less costs to sell.

Loblaw determines the value in use of its retail locations by discounting the expected cash flows that Loblaw management estimates can be generated from continued use of the CGU. The process of determining the cash flows requires management to make estimates and assumptions including projected future sales, earnings and capital investment, and discount rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to Loblaw's Board of Directors. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

Loblaw determines the fair value less costs to sell of its retail locations using various assumptions, including the market rental rates for properties located within the same geographical areas as the properties being valued, highest and best use of the property for the geographical area, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates and terminal capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property.

The estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Additional information on fixed assets is provided in note 12 to the consolidated financial statements.

Post-Employment and Other Long Term Employee Benefits
The discount rate, expected long term rate of return on plan assets, the rate of compensation increase, retirement rates, termination rates, mortality rates and expected growth rate in health care costs are assumptions used in determining the cost and net defined benefit plan obligations of the Company's defined benefit plans and other long term employee benefit plans. These assumptions are forward-looking and long term in nature, they are subject to uncertainty and actual results may differ materially. In accordance with IFRS, differences between actual results and the assumptions, as well as the impact of changes in the assumptions are recognized in other comprehensive loss for defined benefit plans and in net earnings for other long term employee benefit plans for the period, affecting the plan assets and the defined benefit plan obligations. Although the Company believes that its assumptions are appropriate, differences in actual results or changes in the Company's assumptions may materially affect its net defined benefit plan and other long term employee benefit plan obligations and future costs.

Additional information on post-employment and other long term employee benefits is provided in note 24 to the consolidated financial statements.

Goodwill and Indefinite Life Intangible Assets
Goodwill and indefinite life intangible assets are assessed for impairment at least annually, and whenever there is an indication that the asset may be impaired.

An impairment loss is measured as the amount by which the CGU grouping's or indefinite life intangible asset's carrying value exceeds the recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell.

The Company determines the fair value of its CGU groupings and indefinite life intangible assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires management to make estimates and assumptions of a long term nature regarding discount rates, projected revenues, royalty rates and margins, as applicable, derived from past experience, actual operating results, budgets and a five-year business plan which is approved by the GWL and Loblaw Board of Directors.

These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Additional information on goodwill and indefinite life intangible assets is provided in note 14 to the consolidated financial statements.

Income and Other Taxes
The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise judgment regarding the financial statement carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by the tax authorities.

Changes or differences in underlying estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts.

All income, capital and commodity tax filings are subject to audits and reassessments. Changes in interpretations or judgments may result in a change in the Company's income, capital or commodity tax provisions in the future. The amount of such a change cannot be reasonably estimated.

Additional information on income and other taxes is provided in notes 5 and 30 to the consolidated financial statements.

Franchise Loans Receivable and Certain Other Assets
On the initial sale of a franchising arrangement, Loblaw offers products and services as part of a multiple deliverable arrangement which is recorded using a relative fair value approach.

Franchise loans receivable and certain other assets are reviewed at each balance sheet date to determine any indication of impairment. The factors that most significantly influence the impairment assessments are the determination of future cash flows and fair value assessments. An impairment loss is measured as the amount by which the carrying value exceeds the respective estimated future cash flows discounted at the financial instrument's original effective interest rate.

Loblaw determines the initial fair value of its franchise loans and certain other assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires management to make estimates and assumptions of a long term nature regarding discount rates, projected revenues, royalty rates and margins, as applicable, derived from past experience, actual operating results, budgets and Loblaw's five-year business plan, which is approved by Loblaw's Board of Directors. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic market conditions or changes in business strategies will be reflected in the financial statements in future periods.

Additional information on financial instruments is provided in note 28 to the consolidated financial statements.

15. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company finalized its opening balance sheet as well as the consolidated financial statements for 2010 in the first quarter of 2011 based on its IFRS accounting policy choices approved by the Company's Audit Committee. In the completion of its transition to IFRS, certain preliminary unaudited figures disclosed in the Company's 2010 Annual Report were revised resulting in an increase in total equity of $19 million and an increase in equity attributable to shareholders of the Company of approximately $12 million as at January 1, 2010 and an increase in net earnings attributable to shareholders of the Company for the year ended December 31, 2010 of approximately $26 million. These updated figures were reflected in the Company's Quarterly Report in the first quarter of 2011.

The transition to IFRS resulted in a net increase in total shareholders' equity of $1,064 million, an increase in total assets of $1,047 million and a decrease in total liabilities of $17 million as at January 1, 2010. The net increase in total shareholders' equity was primarily a result of the reclassification of non-controlling interests from liabilities to shareholders' equity, partially offset by Loblaw's consolidation of certain special purpose entities, Loblaw's deconsolidation of certain franchisees, differences in the accounting for employee benefits, the impairment of fixed assets and the requirement to fair value additional financial assets. The total assets and total liabilities were further impacted by the consolidation of the independent funding trust and the related debt as well as the recognition of debt related to securitized credit card receivables by Loblaw.

The Company has also completed changes to its internal controls over financial reporting and disclosure controls and procedures for IFRS, which included the enhancement of existing controls and the design and implementation of new controls, where needed. No material change in internal controls over financial reporting or disclosure controls and procedures resulted from the adoption and implementation of IFRS.

Reconciliations prepared in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards" are provided in note 34 to the consolidated financial statements.

16. FUTURE ACCOUNTING STANDARDS

Financial Instruments
On December 16, 2011, the International Accounting Standards Board ("IASB") issued amendments to IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7") and International Accounting Standard ("IAS") 32, "Financial Instruments, Presentation" ("IAS 32"), which clarify the requirements for offsetting financial assets and financial liabilities along with new disclosure requirements for financial assets and liabilities that are offset. The amendments to IAS 32 and IFRS 7 are effective for annual periods beginning on or after January 1, 2014 and January 1, 2013 respectively. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Consolidated Financial Statements
On May 12, 2011, the IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"). This IFRS standard replaces portions of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") that address consolidation, and supersedes SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended for the issuance of IFRS 10 and retains guidance only for separate financial statements.

Joint Arrangements
On May 12, 2011, the IASB issued IFRS 11, "Joint Arrangements" ("IFRS 11"). IFRS 11 supersedes IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28") has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

Disclosure of Interests in Other Entities
On May 12, 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"). This IFRS standard requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial performance and financial condition.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Company is currently assessing the impact of the new standards and amendments on its consolidated financial statements.

Fair Value Measurement
On May 12, 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Employee Benefits
On June 16, 2011, the IASB revised IAS 19, "Employee Benefits" ("IAS 19"). The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit plan obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Presentation of Financial Statements

On June 16, 2011, the IASB issued amendments to IAS 1, "Presentation of Financial Statements". The amendments enhance the presentation of other comprehensive income in the financial statements, primarily by requiring the components of other comprehensive income to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Financial Instruments – Disclosures

On October 7, 2010, the IASB issued amendments to IFRS 7, which increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011 and therefore the Company will apply these amendments in the first quarter of 2012. The Company does not expect any material impact on its financial statement disclosures.

Deferred Tax – Recovery of Underlying Assets

On December 20, 2010, the IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12"), that introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2012. The Company has elected to account for its investment properties at cost and as such there is no impact on its financial statements as a result of these amendments.

Financial Instruments

On November 12, 2009, the IASB issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2015. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

17. OUTLOOK(1)

This outlook reflects the underlying operating performance of the Company's operating segments as discussed below.

In 2012, Weston Foods expects to deliver modest sales growth with market conditions expected to remain challenging. Higher commodity and input costs are expected in the first half of 2012, and these higher costs will put increased pressure on operating margins when compared to the same period in 2011. Weston Foods is continuing its efforts to reduce costs through improved efficiencies and ongoing cost reduction initiatives in an effort to achieve full year operating margins in line with those in 2011.

In 2012, Loblaw will continue to strengthen its customer proposition, while the completion of its IT systems will remain a key priority. Loblaw expects there to be incremental costs related to net investments in IT and supply chain in 2012, as well as continued investment in its customer proposition. Loblaw does not expect its operations to cover these incremental costs, and as a result, anticipates full year 2012 operating income to be down year-over-year, with more pressure in the first half of the year.

For 2012, George Weston Limited anticipates adjusted basic net earnings per common share(2) to be down year-over-year, primarily due to the impact of the incremental costs at Loblaw, as discussed above.

(1) To be read in conjunction with Forward-Looking Statements beginning on page 5.
(2) See non-GAAP financial measures beginning on page 54.

18. NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures: adjusted operating income and adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin, adjusted basic net earnings per common share, adjusted debt and adjusted net debt, adjusted debt to adjusted EBITDA, adjusted debt to equity attributable to shareholders of the Company, free cash flow, interest coverage and return on average net assets. 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 GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with GAAP.

Adjusted Operating Income, Adjusted Operating Margin, Adjusted EBITDA and Adjusted EBITDA Margin
The following tables reconcile adjusted operating income and adjusted EBITDA to GAAP net earnings attributable to shareholders of the Company reported for the periods ended as indicated. Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company's underlying operating performance. These non-GAAP financial measures exclude the impact of certain items and are used internally when analyzing consolidated and segment underlying operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of the items listed in the following tables does not imply that they are non-recurring. Loblaw does not report its results on an adjusted basis, however the Company excludes the impact of the below items, as applicable, when reporting the results of the Loblaw segment.

The Company believes adjusted operating income is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business. The Company believes adjusted EBITDA is also useful in assessing the underlying operating performance of the Company's ongoing operations and in assessing the Company's ability to generate cash flows to fund its cash requirements, including its capital investment program.

Adjusted operating margin is calculated as adjusted operating income divided by sales. Adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales.

	Quarters Ended							
				Dec. 31, 2011				Dec. 31, 2010
(unaudited) ($ millions)	**Weston Foods**	**Loblaw**	**Other[1]**	**Consolidated**	Weston Foods	Loblaw	Other[1]	Consolidated
Net earnings attributable to shareholders of the Company				**$ 109**				$ 111
Add impact of the following:								
Non-controlling interests				**64**				61
Income taxes				**71**				108
Net interest expense and other financing charges				**108**				87
Operating income (loss)	**$ 57**	**$ 313**	**$ (18)**	**$ 352**	$ 57	$ 322	$ (12)	$ 367
Add (deduct) impact of the following:								
Restructuring and other charges[2]	**5**			**5**	3	1		4
Commodity derivatives fair value adjustment at Weston Foods	**(1)**			**(1)**	(5)			(5)
Foreign currency translation losses			**18**	**18**			12	12
Share-based compensation net of equity derivatives	**(3)**	**4**		**1**	(7)	7		
Net insurance proceeds at Weston Foods	**(2)**			**(2)**				
Adjusted operating income	**$ 56**	**$ 317**	**$**	**$ 373**	$ 48	$ 330	$	$ 378
Depreciation and amortization	**15**	**170**		**185**	15	152		167
Adjusted EBITDA	**$ 71**	**$ 487**	**$**	**$ 558**	$ 63	$ 482	$	$ 545

(1) Operating income in the fourth quarter of 2011 included a loss of $18 million (2010 – $12 million) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates, which are foreign operations that have the same functional currency as that of the Company.
(2) Other charges at Loblaw in the fourth quarter of 2010 included $1 million as a result of changes in Loblaw's distribution network.

	Years Ended							
				Dec. 31, 2011				Dec. 31, 2010
(unaudited) ($ millions)	**Weston Foods**	**Loblaw**	**Other[1]**	**Consolidated**	Weston Foods	Loblaw	Other[1]	Consolidated
Net earnings attributable to shareholders of the Company				**$ 635**				$ 452
Add impact of the following:								
Non-controlling interests				**284**				251
Income taxes				**324**				394
Net interest expense and other financing charges				**366**				471
Operating income (loss)	**$ 208**	**$ 1,376**	**$ 25**	**$ 1,609**	$ 285	$ 1,339	$ (56)	$ 1,568
Add (deduct) impact of the following:								
Restructuring and other charges[2]	**13**	**31**		**44**	8	53		61
Commodity derivatives fair value adjustment at Weston Foods	**31**			**31**	(39)			(39)
Foreign currency translation (gains) losses			**(25)**	**(25)**			56	56
Share-based compensation net of equity derivatives	**20**	**27**		**47**	(19)	32		13
Certain prior years' commodity tax matters at Loblaw		**15**		**15**				
Net insurance proceeds at Weston Foods	**(7)**			**(7)**				
Gain on sale of a portion of a Loblaw property		**(14)**		**(14)**				
Adjusted operating income	**$ 265**	**$ 1,435**	**$**	**$ 1,700**	$ 235	$ 1,424	$	$ 1,659
Depreciation and amortization	**60**	**699**		**759**	55	628		683
Adjusted EBITDA	**$ 325**	**$ 2,134**	**$**	**$ 2,459**	$ 290	$ 2,052	$	$ 2,342

(1) Operating income for the year included a gain of $25 million (2010 – a loss of $56 million) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates, which are foreign operations that have the same functional currency as that of the Company.
(2) Other charges for the year at Loblaw included $8 million (2010 – nil) related to an internal realignment of Loblaw's business centred around Loblaw's two primary store formats, conventional and discount, and $23 million (2010 – $53 million) related to changes in Loblaw's distribution network, including a charge of nil (2010 – $26 million) due to an asset impairment.

The year-over-year change in the following items influenced operating income in the fourth quarter of 2011 and year-to-date:

Restructuring and other charges The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. The details of restructuring and other charges are included in Section 7, "Results of Reportable Operating Segments" and Section 9.2, "Fourth Quarter Results", of this MD&A.

Commodity derivatives fair value adjustment at Weston Foods Weston Foods is exposed to commodity price fluctuations primarily as a result of 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 forecasted raw material purchases over a specified period of time. These commodity derivatives are not acquired for trading or speculative purposes. These commodity derivatives are not designated for financial reporting purposes as cash flow hedges of anticipated future raw material purchases, and accordingly hedge accounting does not apply. As a result, changes in the 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. In the fourth quarter of 2011 and year-to-date, Weston Foods recorded income of $1 million (2010 – $5 million) and a charge of $31 million (2010 – income of $39 million), respectively, related to the fair value adjustment of exchange traded commodity derivatives that were not designated within a hedging relationship. Despite the impact of accounting for these commodity derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price fluctuations in the underlying commodities during the period that the commodity derivatives are held.

Foreign currency translation gains and losses The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars and as a result, the Company is exposed to foreign currency translation gains and losses.

The impact of foreign currency translation on a portion of the U.S. dollar denominated net assets, primarily cash and short term investments held by Dunedin and certain of its affiliates, which are foreign operations that have the same functional currency as that of the Company, is recorded in operating income. In the fourth quarter of 2011, foreign currency translation losses of $18 million (2010 – $12 million) were recorded in operating income as a result of the appreciation of the Canadian dollar. Year-to-date, foreign currency translation gains of $25 million (2010 – losses of $56 million) were recorded in operating income as a result of the depreciation (2010 – appreciation) of the Canadian dollar.

Share-based compensation net of equity derivatives The amount of net share-based compensation cost recorded in operating income is mainly dependent upon the level of fluctuations in the market prices of GWL and Loblaw common shares, the number of unexercised RSUs and their vesting schedules relative to the number of underlying common shares of the equity derivatives. The equity derivatives change in value as the market prices of the respective underlying common shares change and provide a partial offset to fluctuations in share-based compensation expense, including RSU plan expense. The Company manages stock option, RSU plan and equity derivative impacts on a net basis and therefore the impact of stock options is also excluded from operating income when management reviews consolidated and segment operating performance. The fourth quarter of 2011 and year-to-date year-over-year increases in the share-based compensation net of equity derivatives charge were $1 million and $34 million, respectively, and were primarily attributable to changes in the market prices of GWL and Loblaw common shares.

Certain prior years' commodity tax matters at Loblaw During the second quarter of 2011, Loblaw recorded a charge of $15 million related to certain prior years' commodity tax matters.

Net insurance proceeds at Weston Foods During the fourth quarter of 2011 and year-to-date, Weston Foods received net insurance proceeds of $2 million and $7 million, respectively, representing insurance proceeds related to the loss of a Quebec facility, net of charges incurred.

Gain on sale of a portion of a Loblaw property During the third quarter of 2011, Loblaw recorded a gain of $14 million related to the sale of a portion of a property in North Vancouver, British Columbia.

Adjusted Basic Net Earnings per Common Share

The following table reconciles adjusted basic net earnings per common share to GAAP basic net earnings per common share reported for the periods ended as indicated. Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company's underlying operating performance. This non-GAAP financial measure excludes the impact of certain items and is used internally when analyzing consolidated underlying operating performance. This non-GAAP financial measure is also helpful in assessing underlying operating performance on a consistent basis. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of the items listed in the following table does not imply that they are non-recurring. Loblaw does not report its results on an adjusted basis, however the Company excludes the impact of the below items on the Loblaw segment, as applicable, when reporting the Company's consolidated results.

The Company believes adjusted basic net earnings per common share is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

(unaudited)	Quarters Ended		Years Ended	
($)	**Dec. 31, 2011**	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
Basic net earnings per common share	**$ 0.77**	$ 0.78	**$ 4.58**	$ 3.16
Add (deduct) impact of the following(1):				
Accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares	**0.09**	(0.04)	**(0.10)**	0.36
Federal tax legislation changes		0.10		0.10
Restructuring and other charges	**0.02**	0.03	**0.18**	0.23
Commodity derivatives fair value adjustment at Weston Foods	**(0.01)**	(0.02)	**0.17**	(0.21)
Foreign currency translation losses (gains)	**0.14**	0.09	**(0.19)**	0.43
Share-based compensation net of equity derivatives	**0.01**	(0.02)	**0.27**	0.02
Certain prior years' commodity tax matters at Loblaw			**0.05**	
Net insurance proceeds at Weston Foods	**(0.01)**		**(0.04)**	
Gain on sale of a portion of a Loblaw property			**(0.06)**	
Adjusted basic net earnings per common share	**$ 1.01**	$ 0.92	**$ 4.86**	$ 4.09

(1) Net of interest, income taxes and non-controlling interests, as applicable.

In addition to the items described in the "Adjusted Operating Income, Adjusted Operating Margin, Adjusted EBITDA and Adjusted EBITDA Margin" section above, the year-over-year change in the following items also influenced basic net earnings per common share in the fourth quarter of 2011 and year-to-date:

Accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares WHL recognizes a non-cash charge or income, which is included in consolidated net interest expense and other financing charges, representing the fair value adjustment of WHL's forward sale agreement for 9.6 million shares. The fair value adjustment in the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw shares it owns. At maturity, if the forward price is greater than (less than) the market price, WHL will receive (pay) cash equal to the difference between the notional value and the market value of the forward contract. Any cash paid under the forward contract could be offset by the sale of Loblaw shares. In the fourth quarter of 2011, a charge related to the accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares of $0.09 (2010 – income of $0.04) per common share was recorded in net interest expense and other financing charges as a result of the increase (2010 – decrease) in the market price of Loblaw common shares. Year-to-date, income of $0.10 (2010 – a charge of $0.36) per common share was recorded as a result of the decrease (2010 – increase) in the market price of Loblaw common shares.

Federal tax legislation changes In the fourth quarter of 2010, the Company recorded a charge of $18 million related to changes in federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options. In the fourth quarter of 2010, a charge of $0.10 per common share was recorded in income tax expense as a result of this change in legislation.

Adjusted Debt and Adjusted Net Debt
Historically, the Company has utilized net debt as a non-GAAP financial measure. The Company believes that adjusted debt and adjusted net debt are more relevant in assessing the amount of financial leverage employed.

The Company calculates debt as the sum of bank indebtedness, short term debt, long term debt, certain other liabilities and the fair value of the related financial derivatives. The Company calculated adjusted debt as the sum of debt less the independent securitization trusts in short term and long term debt and PC Bank's GICs. The Company calculates adjusted net debt as the sum of adjusted debt less cash and cash equivalents, short term investments, security deposits and the fair value of the related financial derivatives.

The following table reconciles adjusted debt used in the adjusted debt to adjusted EBITDA and adjusted debt to equity attributable to shareholders of the Company ratios and adjusted net debt to GAAP measures reported as at the years ended as indicated.

(unaudited) ($ millions)	As at Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Bank indebtedness	**$ 3**	$ 11	$ 10
Short term debt	**1,280**	871	1,525
Long term debt due within one year	**87**	1,202	312
Long term debt	**6,757**	6,114	6,256
Certain other liabilities	**39**	35	36
Fair value of financial derivatives related to the above	**(425)**	(352)	(327)
Total debt	**7,741**	7,881	7,812
Less: Independent securitization trusts in short term debt	**905**	535	1,225
Independent securitization trusts in long term debt	**600**	1,100	500
Guaranteed investment certificates	**276**	18	
Adjusted debt	**5,960**	6,228	6,087
Less: Cash and cash equivalents	**1,372**	1,453	1,490
Short term investments	**2,362**	3,253	3,420
Security deposits	**367**	435	348
Fair value of financial derivatives related to the above	**137**	187	178
	4,238	5,328	5,436
Adjusted net debt	**$ 1,722**	$ 900	$ 651

Capital securities are excluded from the calculation of adjusted debt and adjusted net debt.

Free Cash Flow
The Company believes that free cash flow is a useful measure in assessing the Company's cash available for additional funding and investing activities. Effective 2012, the Company will use free cash flow to better reflect its cash flow activities.

The Company calculates free cash flow as cash flows from operating activities, excluding the net change in credit card receivables, less fixed asset purchases.

The following table reconciles free cash flow to GAAP measures reported for the years ended as indicated.

(unaudited) ($ millions)	2011	2010
Cash flows from operating activities	**$ 1,974**	$ 2,279
Net increase (decrease) in credit card receivables	**104**	(98)
Less: Fixed asset purchases	**1,027**	1,214
Free cash flow	**$ 1,051**	$ 967

Interest and Interest Coverage

The Company believes interest coverage is useful in assessing the Company's ability to cover its net interest charges with its operating income.

The Company calculates interest coverage as operating income divided by net interest expense and other financing charges adding back interest capitalized to fixed assets.

The following table reconciles interest expense used in the interest coverage ratio to GAAP measures reported for the years ended as indicated.

(unaudited) ($ millions)	**2011**	2010
Net interest expense and other financing charges	**$ 366**	$ 471
Add: Interest capitalized to fixed assets	**1**	
Interest expense	**$ 367**	$ 471

Net Assets

The Company believes the return on average net assets ratio is useful in assessing the return on productive assets.

The Company calculates return on average net assets as operating income divided by average net assets.

The following table reconciles net assets used in the return on average net assets ratio to GAAP measures reported as at the years ended as indicated.

				Dec. 31, 2011
(unaudited) ($ millions)	**Weston Foods**	**Loblaw**	**Other[1]**	**Consolidated**
Total assets	**$ 1,875**	**$ 17,588**	**$ 1,860**	**$ 21,323**
Less: Cash and cash equivalents	**92**	**966**	**314**	**1,372**
Short term investments	**62**	**754**	**1,546**	**2,362**
Security deposits	**101**	**266**		**367**
Fair value of WHL's forward sale agreement for 9.6 million Loblaw shares	**478**			**478**
Trade and other payables	**263**	**3,677**		**3,940**
Net assets	**$ 879**	**$ 11,925**	**$**	**$ 12,804**

(1) Other includes cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates.

				Dec. 31, 2010
(unaudited) ($ millions)	Weston Foods	Loblaw	Other[1]	Consolidated
Total assets	$ 1,800	$ 17,001	$ 2,895	$ 21,696
Less: Cash and cash equivalents	157	857	439	1,453
Short term investments	43	754	2,456	3,253
Security deposits	81	354		435
Fair value of WHL's forward sale agreement for 9.6 million Loblaw shares	421			421
Trade and other payables[2]	277	3,522		3,799
Net assets	$ 821	$ 11,514	$	$ 12,335

(1) Other includes cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates.

(2) Excludes an accrual of $1.0 billion related to a special one-time common share dividend.

(unaudited) ($ millions)	Weston Foods	Loblaw	Other(1)	Consolidated
				Jan. 1, 2010
Total assets	$ 1,622	$ 16,250	$ 3,318	$ 21,190
Less: Cash and cash equivalents	165	731	594	1,490
Short term investments	33	663	2,724	3,420
Security deposits	98	250		348
Fair value of WHL's forward sale agreement for 9.6 million Loblaw shares	446			446
Trade and other payables	304	3,372		3,676
Net assets	$ 576	$ 11,234	$	$ 11,810

(1) Other includes cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates.

19. ADDITIONAL INFORMATION

The following table provides additional financial information as at the years ended as indicated.

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Market price per common share ($)	**$ 68.09**	$ 84.20	$ 66.92
Actual common shares outstanding (in millions)	**128.2**	129.1	129.1
Weighted average common shares outstanding (in millions)	**129.0**	129.1	129.1

Additional information about the Company, including its Annual Information Form and other disclosure documents, has been filed electronically with the Canadian securities regulatory authorities in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

This Annual Report includes selected information on Loblaw Companies Limited, a 63.0%-owned public reporting subsidiary 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 available on Loblaw's corporate website at www.loblaw.ca.

Toronto, Canada

February 29, 2012