2. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Accounting Standards Implemented in 2007

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

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

Section 3855 allows management to elect to measure financial instruments that would not otherwise be accounted for at fair value as held-for-trading instruments with changes in fair value recorded in net earnings provided they meet certain criteria. Financial instruments must have been designated when the standard was implemented or when the new financial instrument was acquired and the designation is irrevocable.

Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flow analysis.

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

- Cash and cash equivalents and short term investments are designated as held-for-trading with the exception of certain Loblaw United States dollar denominated cash equivalents and short term investments designated in a cash flow hedging relationship, which are classified as available-for-sale financial assets.
- Accounts receivable and other receivables are classified as loans and receivables.
- Investments in equity instruments are classified as available-for-sale, with the exception of Weston's investment in exchangeable shares of Domtar (Canada) Paper Inc., which is designated as held-for-trading.
- Bank indebtedness, commercial paper, accounts payable and certain accrued liabilities, short term bank loans, long term debt and capital lease obligations are classified as other financial liabilities.
- Weston's Debentures, which may be exchanged for common shares of Domtar Corporation, are re-measured at each balance sheet date based on the market price of the underlying shares. Prior to the implementation of Section 3855, the Debentures were accounted for in a hedging relationship, and the changes in fair value were deferred on the consolidated balance sheet. As the Debentures are no longer eligible for hedge accounting under the new standards, gains and losses resulting from the re-measurement are recognized in operating income.

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

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

- The re-measurement of financial assets classified as available-for-sale at fair value resulted in an increase in other assets of $9, with a corresponding decrease in accumulated other comprehensive loss of $4 net of income taxes and minority interest.
- As a result of classifying certain Loblaw United States dollar denominated cash equivalents and short term investments designated in a cash flow hedging relationship as available-for-sale, the net unrealized gain previously recognized in retained earnings was reclassified to accumulated other comprehensive loss for an amount of $9 net of income taxes and minority interest.

- The investment in common shares of Domtar Inc. ("Domtar", held by the Company prior to the March 7, 2007 transaction concerning Domtar Inc. as more fully described in note 18) and the retained interest held by *PC* Bank in securitized receivables have been designated as held-for-trading and have resulted in a decrease in other assets of $9 and a corresponding decrease in retained earnings of $8 net of income taxes and minority interest.
- The re-measurement of financial assets classified as loans and receivables and financial liabilities classified as other liabilities at amortized cost was insignificant, with the exception of the impact of the Debentures. Under the accounting treatment as described above, a transitional adjustment resulted in a decrease of $11 in long term debt, and a corresponding increase in opening retained earnings of $7, net of income taxes.

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

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

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

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

Section 1530, "Comprehensive Income" introduces a statement of comprehensive income, which is comprised of net earnings and other comprehensive income. Other comprehensive income represents the change in shareholders' equity resulting from transactions and other events from non-owner sources and includes unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, unrealized gains and losses on financial assets that are classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The Company has included in the consolidated financial statements a new consolidated statement of comprehensive income for the changes in these items, while the cumulative changes in other comprehensive income or loss are included in accumulated other comprehensive loss, which is presented as a new category of shareholders' equity on the consolidated balance sheet. See note 22 for further details of the accumulated other comprehensive loss balance. Implementation of the new standards resulted in the reclassification of $503 previously recorded in the cumulative foreign currency translation adjustment, to accumulated other comprehensive loss. Due to the transitional provisions of the standards, this reclassification was accounted for retroactively, with restatement of the comparative year.

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

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

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

	Balance as Reported, Dec. 31, 2006	Transitional Adjustments	Opening Balance Jan. 1, 2007
Other assets	$ 1,459	$ (101)	$ 1,358
Accounts payable and accrued liabilities	$ 3,176	$ 1	$ 3,177
Long term debt	$ 5,918	$ (11)	$ 5,907
Future income taxes	$ 366	$ (41)	$ 325
Other liabilities	$ 688	$ 41	$ 729
Retained earnings	$ 4,506	$ (100)	$ 4,406
Accumulated other comprehensive loss	$ (503)	$ 9	$ (494)

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

Accounting Standards Implemented in 2006

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