HOWARD ROSS LIBRARY OF MANAGEMENT
McGILL UNIVERSITY

Weston

George Weston Limited | 2005 Annual Summary

Our Profile

George Weston Limited ("Weston" or the "Company") is a Canadian public company founded in 1882 and through its operating subsidiaries constitutes one of North America's largest food processing and distribution groups. Weston has two reportable operating segments: Weston Foods and Loblaw Companies Limited ("Loblaw"). The Weston Foods operating segment is primarily engaged in the baking and dairy industries within North America. Loblaw is Canada's largest food distributor and a leading provider of general merchandise, drugstore and financial products and services.

Weston seeks long term, stable growth in its operating segments through continuous capital investment supported by a strong balance sheet, thereby providing sustainable returns to its shareholders through a combination of common share price appreciation and dividends. In order to be successful in delivering long term value to shareholders and to fulfill its long term objectives of security and growth, Weston employs various operating strategies. The Weston Foods operating segment concentrates on brand development, low operating costs and maintaining a broad customer base, with the objective of being the best provider of bakery solutions and fresh dairy products to its customers. Loblaw concentrates on food retailing, with the objective of providing Canadian consumers with the best in one-stop shopping for everyday household needs.

Weston is committed to creating value for its shareholders and participating along with its more than 150,000 employees in supporting the communities in which it operates.

Forward-Looking Statements This Annual Report, which consists of the Annual Summary and the Financial Report, contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions.

These forward-looking statements are not guarantees, but only predictions. Although the Company believes that these statements are based on information and assumptions which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from the estimates, projections and intentions. Such differences may be caused by factors which include, but are not limited to, changes in consumer spending, preferences and consumers' nutritional and health related concerns, changes in the competitive environment, including changes in pricing and market strategies of the Company's competitors and the entry of new competitors and expansion of current competitors, the availability and cost of raw materials and ingredients, fuels and utilities, the ability to realize anticipated cost savings, including those resulting from restructuring and other cost reduction initiatives, the ability to execute restructuring plans effectively, the Company's relationship with its employees, results of labour negotiations including the terms of future collective bargaining agreements, changes to the regulatory environment in which the Company operates now or in the future, changes in the Company's tax liabilities, either through changes in tax laws or future assessments, performance of third-party service providers, public health events, the ability of the Company to attract and retain key executives, the success rate of the Company in developing and introducing new products and entering new markets and supply and quality control issues with vendors. The Company cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Operating and Financial Risks and Risk Management sections of the Company's Management's Discussion and Analysis in its 2005 Financial Report.

The assumptions applied in making the forward-looking statements contained in this Annual Report include the following: economic conditions in 2006 do not materially change from those expected, patterns of consumer spending and preference are reasonably consistent with historical trends, no new significant competitors enter the Company's markets nor does any existing competitor significantly increase its presence or change pricing or market strategies, anticipated cost savings from restructuring activities are realized as planned, continuing future restructuring activities are effectively executed, there are no material work stoppages in 2006 and the performance of third-party service providers is in accordance with expectations in the upcoming year.

Potential investors and other readers are urged to consider these factors carefully in evaluating these forward-looking statements and are cautioned not to place undue reliance on them. The forward-looking statements included in this Annual Report are made only as of the date of this Annual Report and the Company does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events contained in these forward-looking statements may or may not occur. The Company cannot assure that projected results or events will be achieved.

EACH AND EVERY DAY at Weston Foods, we are committed to approximately 65,000 customer deliveries on 6,000 delivery routes. At Loblaw, more than 50,000 items are distributed daily to more than 1,000 corporate and franchised stores. Making the complicated seem simple: it's the key to our success. While our business environment is complex and varied, our strategic focus is anything but. Simply put, Weston is in two core businesses – food processing and retail distribution. In a complex and challenging industry, we are securing Weston's future by making our business simple.

Weston at a Glance 2 | Financial Highlights 4 | Report to Shareholders 5 | Operating Directory 8 | Operating Review 10
Corporate Social Responsibility 20 | Contributing to the Community 21 | Corporate Governance 22 | Corporate Directory 24

The 2005 Annual Report consists of this 2005 Annual Summary and the 2005 Financial Report.

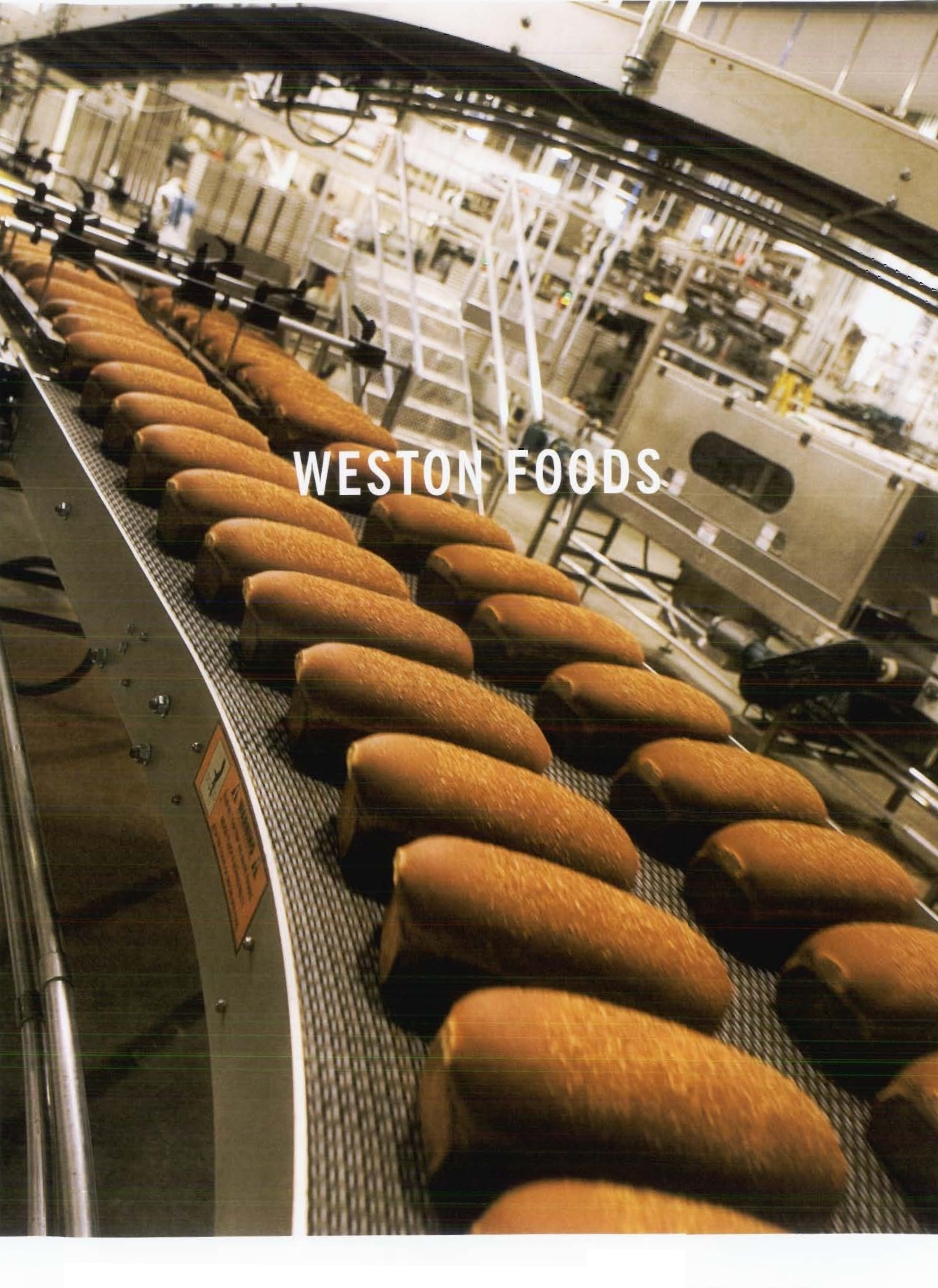
$4 billion sales exceeded

Weston Foods' network of production facilities spans North America with a growing presence in the Midwest and Southeast United States.

	Baking Facilities	Dairy Facilities
Canada		
Western	10	
Ontario	11	2
Quebec	9	
Eastern	3	
United States		
Northeast	18	
Southeast	6	
Midwest	6	
Western	3	
Total	**66**	**2**

WESTON FOODS

Our brands continue to be among the most trusted and innovative brands in the North American baking and dairy industries. Our leading brands include *Arnold, Country Harvest, D'Italiano, Entenmann's, Freihofer's, Neilson, Stroehmann, Thomas', Weston* and *Wonder.*

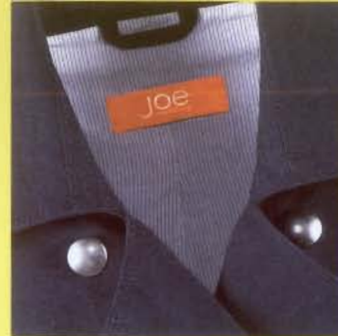

WESTON FOODS

LOBLAW
REAL CANADIAN
Superstore

LOBLAW

Operating a portfolio of banners and store formats across Canada, Loblaw seeks to grow its market share on a market-by-market basis and to satisfy its customers' everyday household needs.

$27 billion sales exceeded



Through its various operating banners, Loblaw is committed to providing Canadians with a one-stop destination in meeting their food and everyday household needs. This goal is pursued through a portfolio of store formats across the country.

Over 48 million square feet of retail space from coast to coast

	Corporate Stores	Franchised Stores	Associated Stores	Independent Accounts	Warehouses
British Columbia	41	43	18		2
Yukon	1	2			
Northwest Territories	3		1	1	
Alberta	67	4	14	2,096	5
Saskatchewan	34	15	26	1,657	2
Manitoba	24	4	39	15	1
Ontario	169	257	16	86	6
Quebec	252	22	341	2,533	4
New Brunswick	22	23	6	296	2
Nova Scotia	36	22	1	523	2
Prince Edward Island	5	3	1	151	
Newfoundland and Labrador	16	7	9	500	2
Total	**670**	**402**	**472**	**7,858**	**26**

FINANCIAL HIGHLIGHTS[1]

For the years ended December 31 ($ millions except where otherwise indicated)	2005	2004
Operating Results		
Sales	31,363	29,798
Sales excluding impact of VIEs[2]	30,985	29,798
Adjusted EBITDA[2]	2,552	2,519
Operating income	1,634	1,782
Adjusted operating income[2]	1,894	1,901
Interest expense and other financing charges	187	438
Net earnings from continuing operations	716	606
Cash Flow		
Cash flows from operating activities of continuing operations	1,812	1,576
Capital investment	1,358	1,425
Per Common Share ($)		
Basic net earnings from continuing operations	5.25	4.49
Adjusted basic net earnings from continuing operations[2]	5.64	5.50
Financial Ratios		
Adjusted EBITDA margin[2]	8.2%	8.5%
Operating margin	5.2%	6.0%
Adjusted operating margin[2]	6.1%	6.4%
Return on average total assets[2]	10.0%	11.5%
Return on average common shareholders' equity	16.7%	14.8%
Reporting Operating Segments		
Weston Foods		
Sales	4,376	4,335
Operating income	241	138
Adjusted operating income[2]	302	256
Operating margin	5.5%	3.2%
Adjusted operating margin[2]	6.9%	5.9%
Return on average total assets[2]	6.5%	3.6%
Loblaw		
Sales	27,801	26,209
Sales excluding impact of VIEs[2]	27,423	26,209
Operating income	1,393	1,644
Adjusted operating income[2]	1,592	1,645
Operating margin	5.0%	6.3%
Adjusted operating margin[2]	5.8%	6.3%
Return on average total assets[2]	11.0%	14.0%

(1) For financial definitions and ratios refer to the Glossary on page 91 of the 2005 Financial Report.

(2) See Non-GAAP Financial Measures beginning on page 44 of the 2005 Financial Report.

REPORT TO SHAREHOLDERS[1]

W. Galen Weston
Chairman and President

George Weston Limited continued its strategy of focusing on two business segments in 2005: baking through Weston Foods and food and general merchandise distribution through Loblaw Companies Limited. The baking segment rebounded positively after a difficult 2004; however, Loblaw was impacted by a series of challenges involving the restructuring of its supply chain network, the establishment of a new national head office and Store Support Centre, systems conversions and other changes related to its transformation to a format based business. I am confident that the strategic course that we have embarked upon will yield results in the future.

2005 basic net earnings per common share from continuing operations were $5.25 compared to $4.49 in 2004, an increase of 16.9% attributable to the net impact of a number of factors highlighted in the Company's 2005 Financial Report. After adjusting for the restructuring and other charges, Weston's 2005 adjusted basic net earnings per common share from continuing operations were $5.64 compared to $5.50 last year. Sales increased 5.3% to $31.4 billion and included a negative impact on sales growth due to foreign currency translation of approximately 0.7% and the positive impact of approximately 1.3% from the consolidation of certain Loblaw independent franchisees. With respect to our overall balance sheet strength, as the Company moves to a free cash flow position, our debt to equity ratio has improved over 2004.

Weston Foods had a strong year in both Canada and the United States. Sales increased 6.0% before the impact of foreign currency translation that reduced sales growth to approximately 1% and resulted in reported sales of $4.4 billion. Volume grew by 3.0% in the year with the 2004 acquisition of Boulangerie Gadoua Ltée contributing 1.6% to overall volume growth. 2005 adjusted operating income for Weston Foods was $302 million, an increase of 18% from $256 million in 2004.

(1) This Report to Shareholders contains a discussion of the following non-GAAP earnings measures: sales excluding variable interest entities, adjusted basic net earnings per common share and adjusted operating income. For a full discussion of the meaning of these non-GAAP measures and a reconciliation of each to their comparable GAAP measure, please see pages 44 to 49 of the Company's 2005 Financial Report.

REPORT TO SHAREHOLDERS[1]

Weston Foods made further progress on its objective of simplifying and removing cost from its existing manufacturing processes and approved plans to consolidate, relocate and restructure selected administrative offices within North America.

Weston Foods remains committed to ensuring it has the appropriate manufacturing assets for the long term and 2005 was a year of significant progress in this area. To support our growing sales and customer base, our manufacturing facilities were expanded and where needed, new facilities are being built. To that end, a new fresh baking facility is now operational in Orlando, Florida to service our growing customer base in the Southeast United States and plans were approved to start construction of a new fresh bakery in the Midwest United States to meet the growing market demands in that region. We have made progress on restructuring activities currently underway in the United States biscuit operations, as well as certain bread and roll manufacturing lines on both sides of the border. Additionally, the Company continues to evaluate strategic and other cost reduction initiatives, particularly related to the fresh-baked sweet goods category in the United States.

2005 was a year of strong innovation for Weston Foods, particularly in the area of healthful products. The launch of *Wonder Plus* in Canada levered off the strong brand equity of *Wonder* to combine the great taste of white bread with the goodness of whole wheat. The *Thomas'* brand was extended into whole grain product offerings. *Thomas' Hearty Grains* English Muffins, *Thomas'* Mini Bagels and *Thomas' Squares* Bagelbread are just a few examples of the many innovations which were successfully launched this year. These introductions were well received by consumers, delivered strong sales growth and helped Weston Foods to gain market share.

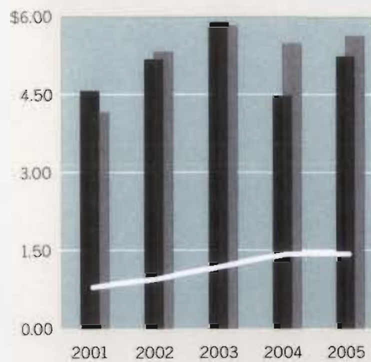
As disclosed in the Loblaw Companies Limited Annual Report, in 2005, Loblaw moved closer to completing one of the largest transformations in its history. We were challenged by the size and impact of the short term costs associated with executing certain elements of the transformation. At the same time, we are confident that this initiative is absolutely necessary to ensure that Loblaw can continue to compete successfully, to grow and to generate meaningful value over the longer term.

We had anticipated and disclosed that the impact of Loblaw's transformation would adversely affect its sales and earnings during the year. We also indicated our willingness to incur these consequences in order to complete the process and realize the long term benefits associated with it. Nonetheless, the short term costs turned out to be greater and more prolonged than expected, as evidenced by our results for 2005. Sales excluding the impact of variable interest entities rose by 4.6% to $27.4 billion. Adjusted operating income decreased 3.2% to $1.6 billion.

While results in baking represent good progress, Loblaw continues to work through its transformational challenges. The expansion of square footage in the retail grocery marketplace is continuing and will put pressure on Loblaw's short term earnings. Given the progress made by our baking operations during the year and Loblaw's strong competitive position, I am confident that both businesses are well positioned for future growth. I would like to thank our more than 150,000 employees for their commitment and dedication during the past year and also thank our shareholders, customers and suppliers for their continued support.

W. Galen Weston
Chairman and President

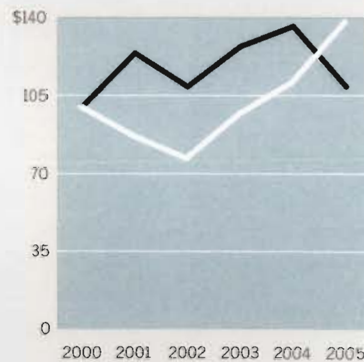
Net Earnings from Continuing Operations and Dividend Rate
Per Common Share ($)



■ Basic net earnings per common share from continuing operations
■ Adjusted basic net earnings per common share from continuing operations(1)
Dividend rate per common share (year end)

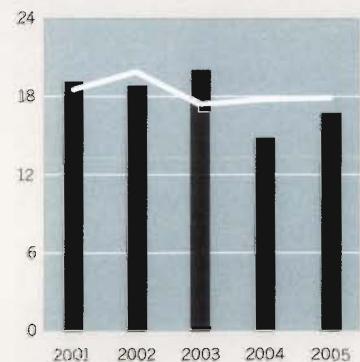
(1) See Non-GAAP Financial Measures beginning on page 44 of the 2005 Financial Report.

Total Return on $100 Investment
(includes dividend reinvestment)
($)



■ George Weston Limited
S&P/TSX Composite Index

Return on Average Common Shareholders' Equity
(%)



■ Return on average common shareholders' equity
Five year average return

OPERATING DIRECTORY

The experience and skills of the Company's senior operational management team are critical to executing its key initiatives and strategies. The various members of our senior operating management team have been employed by the Company, on average, for 30 years. Over this time, they have developed in-depth knowledge and gained the experience necessary to successfully lead their respective operating divisions into the future.

Gary J. Prince – President

Gary joined the Company in 1974 and served in various capacities with Weston Foods Canada. From 1992 to 1994, Gary served as President of Weston Foods Canada, and in 1995 he joined Stroehmann Bakeries in the United States as President. In 1996, Gary was appointed President of all Weston Foods United States operations. Gary is Chairman of the American Bakers Association and a member of the Board of Directors of Students In Free Enterprise.

Ralph A. Robinson – President

As President of Weston Foods Canada, Ralph is in charge of our Canadian bakery and dairy operations. He has served in a variety of positions in his 30-year career with the Company, starting in the Finance area. Ralph was appointed President of Neilson Dairy in 1989 and assumed responsibility for the bakery operations in 1994. Ralph holds a B.Sc. from McGill University and an M.B.A. from York University.

John A. Lederer – President

John became President of Loblaw Companies Limited on January 1, 2001. He joined Loblaw in 1976 and spearheaded the development and implementation of a newly formed discount division, No Frills. In succeeding years, he assumed additional merchandising and operational responsibility throughout Loblaw including overseeing the reorganization and integration of Provigo Inc., acquired in 1998. John received a B.A. in economics from York University. He is a board member of the Food Marketing Institute and founder of the *President's Choice* Children's Charity.

Gordon A.M. Currie – Executive Vice President, Secretary and General Counsel

Gordon was most recently General Counsel of a leading North American energy and services provider, and prior to that, he was a corporate law partner with Blake, Cassels & Graydon LLP in Toronto and London. His experience in private practice and in the business sector will enable him to contribute to a wide variety of strategic and business initiatives within Weston and its affiliated companies. He holds an LL.B. from the University of Toronto and a B.A. from the University of Western Ontario.

Richard P. Mavrinac – Chief Financial Officer

Rick became Chief Financial Officer of George Weston Limited and Executive Vice President of Loblaw Companies Limited in 2003. Rick began his career with Loblaw Companies Limited in 1982 and has held a variety of senior financial positions. In 1996, Rick assumed the role of Senior Vice President, Finance for George Weston Limited and Loblaw Companies Limited. Rick has a Bachelor of Commerce degree from the University of Toronto and is a Chartered Accountant.

OPERATING DIRECTORY (includes age and years of service)

WESTON FOODS

Gary J. Prince
54 and 32 years
President, United States

Raymond A. Baxter
61 and 18 years
Interbake Foods

Dan Babin
51 and 24 years
Operations

Robert Chernoff
44 and 20 years
Information Systems

John Cowles
42 and 1 year
President,
George Weston
Bakeries, Inc.

Steven A. Cucinotta
54 and 10 years
National Customers

Anthony M. Gavin
46 and 23 years
Southeast Business Unit

Richard M. Lee
46 and 12 years
Taxation

John C. Lorenzen
55 and 13 years
Corporate Development

Louis A. Minella
49 and 8 years
Human Resources and
Labour Relations

Fred F. Penny
50 and 25 years
Entenmann's

Bill Petersen
56 and 32 years
Finance and Systems

Peter E. Rollins
51 and 22 years
Thomas' and
New England
Business Unit

Shelly W. Seligman
48 and 20 years
General Counsel

John A. Speaker
53 and 6 years
Midwest Business Unit

Carl H. Taylor
52 and 18 years
Mid-Atlantic
Business Unit

David G. Winiger
46 and 15 years
Maplehurst Bakeries

Kurt R. Wissehr
59 and 21 years
Bread and Rolls

Ralph A. Robinson
57 and 31 years
President, Canada

Lorena M. Ferino
42 and 19 years
Information Technology
and Systems

Pieter J. Fontein
51 and 17 years
Corporate Development

Wayne W. Greer
49 and 5 years
Food Service

Benoît Grégoire
47 and 1 year
Gadoua

Chuck T. Gyles
55 and 13 years
Human Resources and
Labour Relations

Edward J. Holik
47 and 17 years
Baking Operations

Craig R. Hutchison
40 and 4 years
Marketing

Maria Liang
52 and 16 years
Finance and Logistics

Judith A. McCrie
50 and 12 years
Dairy Operations

LOBLAW

John A. Lederer
50 and 29 years
President

Robert A. Balcom
44 and 12 years
General Counsel

David C. Boone
36 and 13 years
The Real Canadian
Wholesale Club
and Cash & Carry

David K. Bragg
57 and 22 years
Real Estate

Mark Butler
45 and 30 years
Atlantic Operations

Roy R. Conliffe
55 and 24 years
Labour Relations

Carmen Fortino
47 and 21 years
Ontario Operations

R. Glen Gonder
47 and 28 years
Western Operations

Joseph Jackman
46 and 1 year
Marketing

David R. Jeffs
48 and 27 years
General Merchandise
Operations

Richard P. Mavrinac
53 and 23 years
Treasury, Tax, Risk
Management and
Investor Relations

Bernard J. McDonell
51 and 12 years
Quebec Operations

Peter McMahon
(effective February 2006)
Supply Chain

Paul D. Ormsby
54 and 23 years
Information Technology
and Food Sourcing
and Procurement

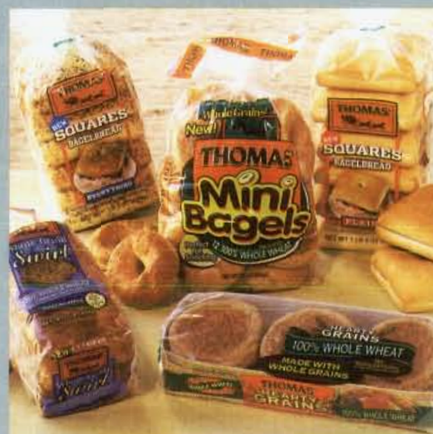
Pietro Satriano
43 and 4 years
Control Label
Development

Stephen A. Smith
48 and 20 years
Financial Control and
Reporting, Employee
Development and
Services and Loss
Prevention

Galen G. Weston
33 and 8 years
Corporate Development

WESTON FOODS

The introduction of *Thomas'* products that include whole grains such as *Thomas' Hearty Grains* English Muffins, *Thomas'* Mini Bagels, *Thomas' Squares* Bagelbread and many others utilizes our brand equity to move the *Thomas'* brand, more than 125 years old, into new product forms and eating occasions. We have also combined our old-world baking tradition with modern packaging and great tasting flavour for the successful renovation of the *Wonder* brand in Canada. Recently Weston Foods introduced *Wonder Plus* bread in Canada which offers the goodness of whole wheat with the same *Wonder* fresh taste. *Neilson Dairy Oh!* milk and single serve drinks bring nutrition to every consumer and are helping us take milk to new places.



Over 100,000 customers

BRANDS

Many of Weston Foods' brands have enjoyed a tradition of trusted quality, great taste and freshness for generations. Our brands' strength and diversity are vital to our long term growth and provide a point of differentiation and credibility for new product introductions. We continue to invest in brand development in order to provide today's consumers with on trend healthy offerings and value across all eating occasions. This includes the introduction of unique and attractive packaging innovations and new impactful store merchandising and display programs.

To meet the shift in consumer preferences toward nutrition and convenience, Weston Foods has increased its offerings of whole grains and easily transportable hand-held single serve products. These products are being developed both through the expansion of our own brands and by partnering with other strategic national brands.

CUSTOMERS

Weston Foods aims to be recognized by its customers as providing the best bakery solutions in North America. Our extensive portfolio includes fresh and frozen baked goods, fresh-baked sweet goods as well as biscuit and dairy products. We continue to focus on meeting customer and consumer needs and providing them with a wide range of bakery and dairy choices across all eating occasions.

We are able to leverage our portfolio of brands and our extensive direct-store delivery network to grow with existing and new customers and meet the service level demands associated with our fresh food offerings.

We continue to strive to be a low cost operator in everything we do in order to continually provide value to our customers. Our flexibility in both product offerings and delivery channels allows us to serve our customers within an ever-changing retail landscape.

Over $200 million capital investment in 2005

PRODUCTION FACILITIES

For Weston Foods, it is simply about having low cost production facilities in the right location, making the right products to service our ever-changing customer base. We are investing in new manufacturing assets in new geographical areas to better access and serve our customers.

Operational efficiency is critical to our long term success. The business climate remains challenged by various inflationary pressures including those on energy, commodity and employee related benefits costs. We are committed to streamlining production processes, reducing cost, eliminating waste, delivering premium quality and optimizing capacity utilization. We are starting to realize the benefit of ongoing transformational changes across the business including the restructuring of our United States biscuit operations and the investment in a new fresh bakery plant in Orlando, Florida. We continue to rationalize higher cost production lines and facilities within our production network. One of our strategic initiatives, Reaching Out for Perfect Execution, has been rolled out to enhance process improvement, eliminate supply chain waste, realize savings in the manufacturing workstream and optimize distribution.

PEOPLE

Weston has the experienced leadership it takes to succeed in a constantly evolving environment. While our industries face a variety of challenges, the know-how and vision of our leaders enable us to confidently move forward on our own path.

Our culture supports personal development and creates a rewarding environment for committed and motivated employees. Leadership building programs are in place to maximize managers' contributions to achieving our goals. Measures are also in place to drive improvements as well as increase collaboration within the organization and with customers and suppliers. Weston is committed to providing a healthy and safe workplace for all employees and continues to work on a collaborative basis to maintain strong employee and labour relations.

Weston Foods remains committed to employing leading manufacturing processes such as Integrated Process Management ("IPM"), which uses statistics to manage manufacturing processes. The use of IPM significantly increases the consistency of production quality and drives process decision-making at the production line operator level, enabling management to focus energy on value-added activities.

LOBLAW

While food remains at the heart of its offering, Loblaw seeks to change Canadians' perceptions of what a supermarket can be. Loblaw stores provide a wide, growing and successful range of products and services to meet the everyday household needs of Canadian consumers.

Over 1,700,000

customers enjoy shopping at our stores every day

STORE FORMATS WITH MANY STRENGTHS, ONE VISION

As the heart of its business, Loblaw took steps in 2005 to further strengthen its store network and to make those stores more relevant to Canadian consumers.

This was pursued, in large part, through Loblaw's assortment of formats operating under a number of banners. This multi-format approach ensures that Loblaw can provide the store model and the product offerings that best suit the consumer preferences and business environment in any given market area.

Throughout 2005, Loblaw continued to execute a significant capital investment program in support of its stores and formats. A particular focus of this program was the growth of the superstore format in Ontario. This strategic initiative continued to be well received and to generate positive results. In addition, Loblaw continued its collaborative dialogue with the representatives of its unionized employees. This dialogue focused on such business opportunities as expanding the superstore format by converting conventional locations where it makes sense to do so. This strategy helps to address the consumer's increasing preference for value and convenience. It also reflects Loblaw's stated commitment to provide Canadians with a one-stop shopping destination in meeting their food and everyday household needs.

In support of that commitment, Loblaw refreshed the appearance of many of its stores during the past year. These alterations were designed to reinforce the stores' position in the marketplace as destinations for value, quality and selection. Store exteriors were enhanced through remodeling and new signage. Interiors featured new architecture, decor and in-store signage. And several banners received new or re-formatted identities as part of this multi-faceted process.

In 2005, Loblaw took other, less visible, steps to support its store network. A number of operational and administrative functions were brought together so that they could work more effectively. A new head office and Store Support Centre was opened in Brampton, Ontario. And a testing facility was opened, in which training programs can be conducted and potential department layouts can be examined before being introduced into the stores. These measures were taken to ensure that Loblaw's many strengths support the vision of a more aligned organization.

Over **1,900**

new control label products introduced in 2005

PRODUCT INNOVATION WITH CUSTOMER FOCUS

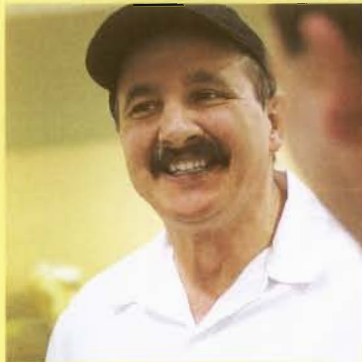
Loblaw has a proven ability to anticipate and respond to changing consumer preferences in an increasingly competitive landscape and is committed to meeting more of the food and everyday household needs of consumers from coast to coast.

Loblaw fulfills this commitment by providing an increasing range of food, general merchandise and drugstore offerings, many under the extremely successful *President's Choice*, *no name* and *Exact* control label brand names.

Along with its store network, food remains at the heart of Loblaw. In 2005, Loblaw continued its focus on the fresh component of its food business by introducing new products and programs and implementing a number of operational measures. These measures included the creation of a centralized food merchandising function designed to achieve opportunities of scale and to identify common practices. In addition, Loblaw engaged its suppliers in developing more effective ways of working together.

These measures were aimed at further reinforcing consumer confidence in Loblaw's food offering and increasing customer loyalty to its stores. This loyalty was earned by building on the proven success of the *President's Choice* brand, especially in addressing the growing consumer interest in nutrition and health. A number of measures initiated in 2005 demonstrated the continuing leadership role played by Loblaw and by the *President's Choice* brand. The *PC Blue Menu* line of healthier, nutritious foods was launched and the *PC Mini Chefs* portfolio was expanded. And Loblaw's first Healthy *Insider's Report* was published. These actions further enhanced the reputation of *President's Choice* for innovative, affordable and convenient products. In addition, the *PC* points program offered through *President's Choice Financial* services continued to play an important part in Loblaw's consumer loyalty initiative.

To complement its excellent food offering, Loblaw continued to add to its assortment of general merchandise, drugstore and financial products and services, a number of which were offered under the *President's Choice* brand. New offerings, like the *PC Mobile* line of prepaid cellular phone services and the *Joe Fresh Style* line of apparel for adults, are helping Loblaw become more relevant to its customers' varied lifestyles.



Loblaw continues its focus on the *President's Choice* brand, which provides a wide range of food, general merchandise and specialty service offerings, including auto, home, travel and pet insurance available through *PC Financial Services*. *PC* products, such as lower-calorie, lower-fat *PC Blue Menu* items, delight customers with great taste and exceptional value.

At Loblaw, investment in warehouse facilities and a move towards a more integrated national network will ensure that the right product is delivered to the right store at the right time. On a daily basis, this commitment to execution means supplying more than 50,000 items to more than 1,000 corporate and franchised stores.

Over **134,000** employees contribute to Loblaw's success

NATIONAL SYSTEMS AND SUPPLY CHAIN WITH STRATEGIC BUSINESS INITIATIVES

While many of Loblaw's transformative changes are visible to the consumer, some less visible but equally important initiatives were completed in 2005 while others will continue into the first half of 2006.

These measures are designed to assist in the pursuit of Loblaw's strategic imperatives, making it more streamlined, efficient and cost-effective in everything it does.

These transformative changes include the conversion to a national systems platform across a number of functions, such as store ordering, purchasing, and inventory tracking. Loblaw also moved forward on the restructuring of its supply chain network. Upon completion, this measure will improve the movement of inventories, enhance efficiencies, and lower costs. Loblaw also continued to simplify its distribution network in 2005 with the closure of a number of smaller facilities and the transfer of their functions to larger, more cost-effective centres. The past year also saw the opening of a third-party owned and operated general merchandise warehouse and distribution centre serving eastern Canada. In addition, Loblaw began a process that will examine how to simplify the flow of goods to stores.

Loblaw has also taken steps to strengthen the leadership skills among its employees. An in-house, tailored leadership program has been developed to enhance the capabilities of managers. This program is designed to identify, support and strengthen leadership at the store level reflecting the commitment of senior management to engage in dialogue with store personnel, and to act on their feedback and recommendations. An important aspect of this leadership program is the Store Managers' Council. The Council's rotating membership of twelve managers meets to discuss and develop recommendations on ways to improve and better serve Loblaw's stores. During 2005, these discussions covered issues such as training programs, leadership development and communication among employees.

Other store-focused leadership initiatives are equally important in promoting leadership and cooperation. A number of these measures were pursued during the past year. In order to ensure consistency, common approaches were developed in such areas as leadership coaching, business development and program execution.

CORPORATE SOCIAL RESPONSIBILITY

George Weston Limited and its subsidiaries are committed to responsible corporate citizenship. This includes providing a safe workplace for employees, contributing to its local communities, respecting the environment, promoting food health and safety, and offering products that provide meaningful choices to consumers. These commitments are instilled throughout the organization and are overseen by the Environmental, Health and Safety Committees of the George Weston Limited and Loblaw Companies Limited Boards of Directors and by the full Boards themselves. The committees review and monitor policies, procedures, practices and compliance in these fields.

Initiatives in these areas are undertaken through a combination of four approaches – by the Company itself, in conjunction with other industry members, as part of industry-government partnerships, and in direct cooperation with governments.

Respecting the environment in a sustainable way: The commitment to the environment is demonstrated through measures in such areas as environmental awareness and management, energy efficiency, waste management and packaging.

Environmental awareness: Measures in this area are driven by an Environmental Management System designed to achieve the structured integration of environmental programs into the Company's operations. This System also focuses on ensuring the control of high-risk activities, the management of hazardous wastes, the control and reduction of ozone-depleting substances and promoting wastewater load reduction and treatment. Key environmental performance indicators in these and other areas are identified, measured, monitored and evaluated against internal and external benchmarks. Environmental risk assessments and audits of ongoing and newly acquired or established operations are conducted on a regular basis by in-house environmental staff as well as by external parties. In addition, employees receive education and training that enable them to recognize and minimize environmental risks and to respond to any incidents that might occur.

Energy efficiency: Ongoing efforts are directed towards improving energy efficiency throughout the Company. The areas in which these efficiencies are pursued include the lighting used for stores and manufacturing facilities, energy-efficient refrigeration, the use of energy in corporate facilities, and the fuels used in the Company's transportation and other operations. In September 2005, Loblaw opened its new energy efficient head office and Store Support Centre in Brampton, Ontario. Furthermore, Loblaw has established partnerships and commitments with federal and provincial agencies to achieve energy conservation at the retail store level in a realistic and focused manner, including the use of innovative refrigeration system technology.

Waste management and packaging: Waste management programs follow a three-stage process – source reduction, diversion to re-use or recycling and, finally, disposal. The Company is a long-standing supporter of, and financial contributor to, such industry sponsored programs as Corporations Supporting Recycling and the Composting Council of Canada. This commitment is evident throughout the Company's operations. Bakeries and dairies utilize re-usable shipping containers. In-store photo labs recycle disposable cameras, processing fluids and even film cuttings. Post-consumer recycled material is used in control label packaging to the greatest extent possible without compromising the safety or quality of the product. Packaging of control label product is labelled as appropriate with the symbols that help customers identify materials that can be recycled through local municipal programs. As well, customers are offered a choice in grocery checkout packaging, including conventional plastic shopping bags, re-usable plastic bags, recyclable corrugated containers and re-usable bins. Also, this commitment extends to the administration, support and corporate offices of the Company, where waste minimization and recycling activities are actively employed. These programs promote the diversion of plastics, metals, paper, corrugate and organics from landfill.

Promoting food health and safety: The commitment to food health and safety is reflected in the Company's participation in standard setting initiatives, in its operations, in its dealings with suppliers, and in the information provided to customers.

The Company supports national initiatives designed to promote food health and safety. It works to ensure that products meet or exceed the food safety requirements of the Canadian Food Inspection Agency and the U.S. Food and Drug Administration. It also participates in national joint industry-government programs in the development of food safety procedures for different parts of the food supply system. Suppliers are informed of the standards to which they must adhere and are expected to observe them. Manufacturing, refrigeration and handling procedures, employee education and training programs, compliance systems and independent audits are among the measures used to promote food health and safety within the Company's manufacturing facilities, stores and other operations. Through packaging and labelling of branded and control label products, customers are informed of manufacturing ingredients and whether certain products made or processed at manufacturing facilities and in-store departments may have come in contact with one or more allergens. This allows consumers to make more fully informed purchasing decisions.

Offering products that provide meaningful choices: The Company provides a wide range of product offerings to meet an equally wide range of consumer preferences. This includes the provision of alternative food products that provide customers with meaningful choices.

The environmentally friendly collection of *President's Choice* GREEN products and the hundreds of *President's Choice Organics* products have been developed to satisfy customers' environmental or health preferences. The organic products are third-party certified as organic, are in packages containing recycled materials, and are priced to be competitive with similar national brands. The *Natural Value* department in many stores is a one-stop source for health food needs, offering a selection of healthy and nutritious alternative foods, vitamins and herbal products.

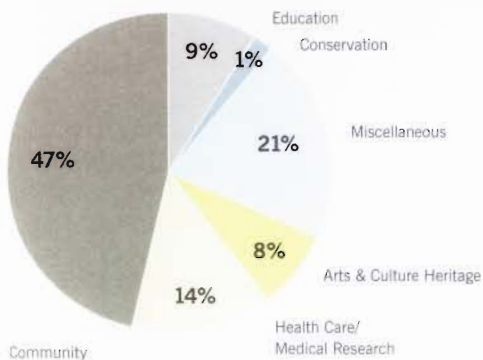
The focus on healthy and nutritious food products is further demonstrated by the launch of *PC Mini Chefs* products which have been designed to fit into a healthy eating plan for young children consistent with the federal government's "Nutrition Recommendations for Canadians." These products have been approved by a team consisting of prominent nutrition researchers and registered dieticians. The *PC Blue Menu* line of products offers adults a variety of alternatives lower in fat, calories and sodium, and higher in fibre. Consumers are also offered alternative healthy baked goods with no trans fats and healthier grains. *Country Harvest*, the 100% whole grain breads with Omega-3, makes eating healthy simpler. The introduction of *Wonder Plus* bread offers consumers the benefits of whole wheat with the same *Wonder* fresh taste. Neilson dairy launched *Dairy Oh!* milk, containing DHA (endorsed by Health Canada), an Omega-3 fatty acid which supports the normal development of the brain, eyes and nerves.

George Weston Limited and its subsidiaries are committed to improving the quality of life in their local communities, and believe that business should partner with its employees to make a positive contribution to community organizations.

As a member of the Imagine Caring Company program, Weston is committed to contributing a minimum of 1% of pre-tax profits to charitable organizations in Canada and encouraging employee volunteerism.

Contributions to voluntary organizations, of both cash and in-kind donations, are made by George Weston Limited, Loblaw Companies Limited, their operating divisions in Canada and the United States, the *President's Choice* Children's Charity and The W. Garfield Weston Foundation, a Canadian charitable foundation associated with the Weston group of companies.

George Weston Limited Group Donations by Category



Here are just a few of the ways in which the Weston group of companies supports communities and people:

Food banks across Canada: The Weston group of companies has a strong record of providing support to non-profit organizations that procure, warehouse and distribute food to members of the Canadian Association of Food Banks. This assistance is provided on an ongoing basis as well as through participation in seasonal food drives. Strict procedures ensure that the food donated meets all health and safety requirements.

***President's Choice* Children's Charity:** In 1989, Loblaw Companies Limited established this charity to assist physically and developmentally challenged children and their families. The goal is to support children's independence and dignity by removing some of the obstacles that make everyday living difficult for them. The Charity makes difficult lives a little easier by providing direct financial assistance for the purchase of mobility equipment, environmental modifications and therapies. To date, the *President's Choice* Children's Charity has raised in excess of $15 million and assisted more than 3,500 Canadian families.

Year of the Veteran: 2005 was declared The Year of the Veteran in honour of the great contribution of the men and women of the Canadian armed forces. The Weston group of companies was pleased to support many veteran-related causes and organizations across the country. Weston was proud to remember its founder, Garfield Weston, by supporting his high school, Harbord Collegiate, and the Harbord Charitable Foundation. Through Collegiate alumni and friends, funds were raised to restore the Great War Monument honouring students of this school in Toronto who lost their lives in WWI. In addition, Weston continues to support the Juno Beach Centres' educational program for Canadian History Teachers across Canada.

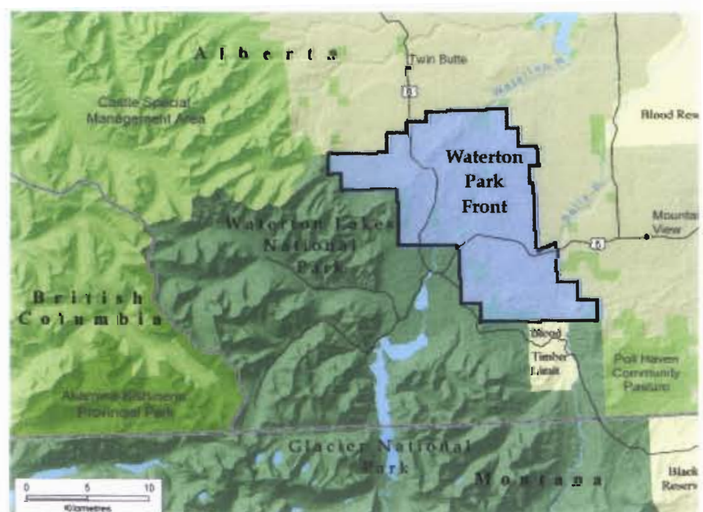
The Craig R. Williams and Glenn Grieve Scholarship Funds: Weston recognizes that its employees are its greatest strength and provides many training and educational opportunities for employees and their families. These Funds provide scholarships that enable current employees, their spouses and children to attend post-secondary programs in Canada. To date, more than 650 scholarships totalling over $1.7 million have been awarded to students across the country.

THE W. GARFIELD WESTON FOUNDATION

The W. Garfield Weston Foundation directs the majority of its funds to organizations in the fields of education and environment. These include national programs of university and college scholarships through the Canadian Merit Scholarship Foundation and an award-winning initiative, Children First: School Choice Trust, which provides educational opportunity for elementary school children in Ontario.

The Weston Family Innovation Centre, at the Ontario Science Centre, explores current science, emerging technology and the issues underlying new discoveries. At the Royal Ontario Museum, Renaissance ROM is creating spectacular new space for exhibits and galleries, and expanding the Garfield Weston Exhibition Hall.

The Foundation also works with the Nature Conservancy of Canada, from coast to coast, to protect critical habitats and the endangered species that call them home. The Waterton Park Front Project has conserved more than 100 square kilometres (27,000 acres) of magnificent and ecologically significant land in Alberta, and is today the largest private conservation initiative in Canadian history.



Waterton Park Front Project – 250km south of Calgary, AB

Summary of Corporate Governance Practices

The Company's Board and management believe that sound corporate governance practices will contribute to the effective management of the Company and its achievement of strategic and operational plans, goals and objectives. The Company seeks to attain high standards of corporate governance and when appropriate, adopts "best practices" in developing its approach to corporate governance. The Company's approach to corporate governance is consistent with National Policy 58-201 – Corporate Governance Guidelines (the "Guidelines"). The Governance, Human Resource, Nominating and Compensation Committee ("Governance Committee") regularly reviews its corporate governance practices and considers any changes necessary to maintain the Company's high standards of corporate governance.

Director Independence

The Board is comprised of a majority of independent directors. The Governance Committee has reviewed each existing and proposed director's factual circumstances and relationships with the Company to determine whether he or she is independent within the meaning of the Guidelines. The Guidelines provide that a director is independent if he or she has no material relationship with the Company or its affiliates that would reasonably be expected to interfere with the director's independent judgment.

Board Leadership

Mr. W. Galen Weston is Chairman of the Board. Mr. Weston has a significant common interest with other shareholders with respect to value creation, the well being of the Company, and the performance of its publicly listed securities. The Board has established a position description for the Chairman of the Board. The Board has appointed an independent director, Peter B. M. Eby, to serve as lead director. The lead director provides leadership to the Board and particularly to the independent directors. He ensures that the Board operates independently of management and that directors have an independent leadership contact. As part of his responsibilities, the lead director meets periodically with the other directors to obtain insight as to areas where the Board and its Committees can operate more effectively and to ensure the Board is able to discharge its responsibilities independent of management. The Board has developed a position description for the lead director.

Board Responsibilities and Duties

The Board, directly and through its Committees, supervises the management of the business and affairs of the Company with the goal of enhancing long term shareholder value. The Board reviews the Company's direction, assigns responsibility to management for achievement of that direction, develops and approves major policy decisions, delegates to management the authority and responsibility for day-to-day affairs and reviews management's performance and effectiveness. The Board's expectations of management are communicated to management directly and through Committees of the Board.

The Board approves the Company's corporate goals and objectives, operating budgets and strategies, which take into account the opportunities and risks of the business. Members of the Board attend an annual all-day strategy session with management to discuss and review the Company's strategic plans and opportunities. In addition, management's strengths and weaknesses are discussed. Through the Audit Committee, the Board oversees the Company's risk management framework and assesses and evaluates the integrity of the Company's internal controls and management information systems. Through the Governance Committee, the Board oversees succession planning and compensation for senior management as well as Board nominees.

Individual directors may, with the approval of the lead director, retain an outside advisor at the expense of the Company.

The Board requires that management seek directors' review and approval of:

- strategic corporate direction and corporate performance objectives;
- multi-year and annual business, capital and operating plans and budgets;
- material capital expenditures, acquisitions, divestitures and restructurings; and
- investment outside of the ordinary course of business.

These matters are in addition to those matters which are required by law to receive Board consideration and approval.

The Board regularly receives reports on the operating results of the Company, as well as timely reports on various matters, including insurance, pensions, corporate governance, health and safety and treasury matters.

Ethical Business Conduct

The Company's Code of Business Conduct (the "Code"), sets out the Company's long-standing commitment of requiring adherence to high standards of ethical conduct and business practices. The Code is reviewed annually to ensure it is current and reflects best practices in the area of ethical business conduct. Directors, officers and employees of the Company are required to comply with the Code and must acknowledge their commitment to abide by the Code on a periodic basis. The Code is available on the Company's website at www.weston.ca.

The Code also deals with conflicts of interest. Should an officer, director or employee have a conflict of interest with respect to any matter, that individual is required to bring the conflict to the attention of the Ethics and Conduct Committee and, if a director has a conflict with respect to any matter, he or she may not participate in any discussion or vote on the matter. The Code also addresses such issues as the protection of confidential information and the protection and proper use of the Company's assets.

The Company has established an Ethics and Conduct Committee, which reviews all material breaches of the Code. The Ethics and Conduct Committee also oversees implementation of the Code, educating employees regarding the Code and reviews the Code annually to determine if it requires revision.

The Company encourages the reporting of unethical behaviour and has established an Ethics Response Line, a toll-free number that any employee or director may use to report conduct which he or she feels violates the Code or otherwise constitutes fraud or unethical conduct. A fraud reporting protocol has also been implemented to ensure that fraud is reported to senior management in a timely manner. In addition, the Audit Committee has endorsed procedures for the receipt, retention and handling of complaints regarding accounting, internal control or auditing matters. These procedures are available at www.weston.ca.

Board Committees

There are five Committees of the Board: Audit; Governance, Human Resource, Nominating and Compensation; Pension and Benefits; Environmental, Health and Safety; and Executive.

The Audit Committee is comprised solely of independent directors. All Committees are comprised solely of non-management directors, in each case, with a majority of members being independent directors except for the Executive Committee. The Board believes that the composition of its Committees (with the exception of the Executive Committee) allows them to operate independently from management.

Each Committee has a formal mandate and a position description for the Chair established by the Board. Both the mandate and position description are reviewed annually. Copies of the Committees' mandates are available on the Company's website at www.weston.ca.

The following is a brief summary of some of the responsibilities of each Committee:

Audit Committee

All members of the Audit Committee must be independent and financially literate as required under applicable rules. The Audit Committee is also responsible for supporting the Board in overseeing the integrity of the Company's financial reporting and internal controls over financial reporting, disclosure controls, internal audit function and its compliance with legal and regulatory requirements. The Audit Committee's responsibilities include:

- recommending the appointment of the external auditor;
- reviewing the arrangements for and scope of the audit by the external auditor;
- reviewing the independence of the external auditor;
- reviewing and approving the Company's hiring policies regarding partners and professional employees of the present and former external auditor;
- considering and evaluating with management the adequacy and effectiveness of internal controls over financial reporting and disclosure controls and procedures and reviewing any proposed corrective actions;
- reviewing and monitoring the Company's policies relating to ethics and conflicts of interests;
- overseeing procedures for the receipt, retention and follow up of complaints regarding the Company's accounting, internal controls and auditing matters and the confidential anonymous submission by employees of concerns regarding such matters;
- reviewing and monitoring the internal audit function of the Company;
- reviewing the integrity of the Company's management and information systems;
- reviewing and approving the audit fees paid to the external auditor and pre-approval of non-audit related fees to the external auditor;
- discussing and reviewing with management and the external auditor the Company's annual and interim consolidated financial statements, key reporting matters and Management's Discussion and Analysis and Annual Information Form;
- reviewing disclosure containing financial information based on the Company's financial statements; and
- reviewing with management the principal risks of the Company's business and the systems and processes implemented to manage these risks.

Governance, Human Resource, Nominating and Compensation Committee

The Governance Committee is responsible for overseeing the compensation of directors and executive officers.

The Governance Committee is also responsible for developing and maintaining governance practices consistent with high standards of corporate governance. As part of its mandate, the Governance Committee identifies and recommends candidates for nomination to the Board as directors, monitors the orientation program for new directors and maintains a process for assessing the performance of the Board and its Committees as well as the performance of individual directors and discharging the Board's responsibilities relating to compensation and succession planning for the Company's senior employees. The Governance Committee's specific responsibilities include:

- identifying candidates for membership on the Board and evaluating the independence of the directors;
- assisting in directors' orientation and assessing their performance on an ongoing basis;
- shaping the Company's approach to corporate governance and recommending to the Board corporate governance principles to be followed by the Company;
- discharging the Board's responsibilities relating to compensation and succession planning for the Company's senior employees; and
- determining the process for the compensation of directors and executive officers.

The Board appointed the Chairman of the Governance Committee, who is an independent director, to serve as lead director.

Pension and Benefits Committee

The Pension and Benefits Committee is responsible for:

- reviewing the performance of the Company's and its subsidiaries' pension plans and pension funds;
- reviewing and recommending managers for the fund's portfolio;
- reviewing the performance of pension fund managers;
- reviewing and approving the assumptions used, the funded status and amendments to the Company's and its subsidiaries' pension plans; and
- receiving reports regarding level, types and costs of the Company's employee benefit plans.

Environmental, Health and Safety Committee

The Environmental, Health and Safety Committee is responsible for reviewing and monitoring environmental, food safety and workplace health and safety policies, procedures, practices and compliance.

Executive Committee

The Executive Committee possesses all of the powers of the Board except the power to declare common dividends and certain other powers specifically reserved by applicable law to the Board. The Executive Committee acts only when it is not practicable for the full Board to meet.

Other Corporate Governance Matters

Disclosure Policy

The Board has reviewed and adopted a corporate Disclosure Policy to deal with the timely dissemination of all material information. A copy of the Disclosure Policy is available on the Company's website. The Disclosure Policy, which is reviewed annually, establishes consistent guidance for determining what information is material and how it is to be disclosed to avoid selective disclosure and to ensure wide dissemination. The Board, directly and through its Committees, reviews and approves the contents of major disclosure documents, including unaudited interim and audited annual consolidated financial statements, Management's Discussion and Analysis, the Annual Information Form and the Management Proxy Circular. The Company seeks to communicate to its shareholders through these documents as well as by means of news releases, its website and investor relations meetings.

Disclosure Committee

A Disclosure Committee comprised of senior management of the Company oversees the Company's disclosure process as outlined in the Disclosure Policy. The Disclosure Committee's mandate includes ensuring that effective disclosure controls and procedures are in place to allow the Company to satisfy all of its continuous disclosure obligations including certification requirements. The Disclosure Committee is also responsible for ensuring that the policies and procedures contained in the Company's Disclosure Policy are in compliance with regulatory requirements.

BOARD OF DIRECTORS

W. Galen Weston, O.C., B.A., LL.D. (1*)
Chairman and President, of the Corporation; Chairman, Loblaw Companies Limited, Holt, Renfrew & Co., Limited, Brown Thomas Group Limited, Selfridges & Co. Ltd.; President, The W. Garfield Weston Foundation; Director, Associated British Foods plc; Member, Advisory Board of Columbia University.

A. Charles Baillie, B.A., M.B.A. (2*,3)
Retired Chairman, Toronto Dominion Bank; former Chairman & CEO, Toronto Dominion Bank; Director, Dana Corporation, Canadian National Railway Company, Telus Corporation; Chancellor, Queens University; President, Art Gallery of Ontario's Board of Trustees; Honorary Chairman of the Canadian Council of Chief Executives.

Robert J. Dart, B.Comm., F.C.A.
Vice Chairman and former President, Wittington Investments, Limited; former Senior Tax Partner, Price Waterhouse Canada; Director, Holt, Renfrew & Co., Limited, Brown Thomas Group Limited.

Peter B.M. Eby, B.Comm., M.B.A. (1,2,3*)
Former Vice Chairman and Director, Nesbitt Burns Inc.; former Executive, Nesbitt Burns Inc. and its predecessor companies; former Chairman, Olympic Trust; Director, Leon's Furniture Limited, Sixty Split Corporation, TD Waterhouse Inc. U.S. Family of Funds, Provigo Inc., R. Split II Corporation.

Phillip W. Farmer, B.Sc. (2,5)
Retired Chairman, President and Chief Executive Officer, Harris Corporation; former Chairman, Executive Committee of the Manufacturer's Alliance; Director, Vulcan Materials Company, AuthenTec, Inc.; former Governor, Aerospace Industries Association; Vice Chairman, Board of Trustees of Florida Institute of Technology; former Member of U.S. Secretary of Defense's Defense Policy Advisory Committee on Trade.

Anne L. Fraser, B.Sc., LL.D. (5*)
Education Consultant, University of Victoria; Associate, Faculties of Management, Education, Engineering, Law and Fine Arts, University of Calgary; President, ENERG Enterprises Inc.; Director, Pier 21 Foundation, The Victoria Foundation.

Anthony R. Graham (1,3,4*)
President and Director, Wittington Investments, Limited; President and Chief Executive Officer, Sumarria Inc.; former Vice Chairman, National Bank Financial; former Senior Executive Vice President and Managing Director, Lévesque Beaubien Geoffrion Inc.; Chairman and Director, President's Choice Bank, Graymont Limited; Director, Loblaw Companies Limited, Brown Thomas Group Limited, Holt, Renfrew & Co., Limited, Power Corporation of Canada, Power Financial Corporation, Provigo Inc., Selfridges & Co. Ltd.

Mark Hoffman, A.B., B.A., M.A., M.B.A. (4,5)
Chairman, Cambridge Research Group, Guinness Flight Venture Capital Trust plc; Director, Millipore Corporation, Advent International Corporation, Hermes Focus Asset Management Limited, Glenhuron Bank Limited, Glenmaple Reinsurance Limited.

John C. Makinson, B.A., CBE (2)
Chairman and Chief Executive Officer, The Penguin Group; former Group Finance Director, Pearson plc; Managing Director, Financial Times Newspaper; Director, Pearson plc, Interactive Data Corporation Inc.

J. Robert S. Prichard, O.C., O. Ont., M.B.A., LL.M., LL.D. (3)
President and Chief Executive Officer and Director, Torstar Corporation; President Emeritus, University of Toronto; Director, Bank of Montreal, Onex Corporation, Four Seasons Hotel.

M.D. Wendy Rebanks, B.A. (4,5)
Treasurer, The W. Garfield Weston Foundation; Trustee, Toronto Art Centre; Honorary Trustee, American Museum Trustee Association, Royal Ontario Museum; Director, The Canadian Merit Scholarship Foundation.

Galen G. Weston, B.A., M.B.A.
Senior Vice President, Corporate Development, Loblaw Companies Limited; former Vice President, Operations, No Frills; former Senior Director e-Commerce Development, Loblaw Companies Limited; Director, Wittington Investments, Limited, Canadian Film Centre; Trustee, The W. Garfield Weston Foundation.

(1) Executive Committee
(2) Audit Committee
(3) Governance, Human Resource, Nominating and Compensation Committee
(4) Pension and Benefits Committee
(5) Environmental, Health and Safety Committee
* Chairman of the Committee

CORPORATE OFFICERS (includes age and years of service)

W. Galen Weston, O.C. (65 and 34 years)
Chairman and President

Richard P. Mavrinac (53 and 23 years)
Chief Financial Officer

Gordon A.M. Currie (47 and 1 year)
Executive Vice President, Secretary and General Counsel

Robert A. Balcom (44 and 12 years)
Senior Vice President, Assistant Secretary

Roy R. Conliffe (55 and 24 years)
Senior Vice President, Labour Relations

Louise M. Lacchin (48 and 22 years)
Senior Vice President, Finance

Donald G. Reid (56 and 26 years)
Senior Vice President

Robert G. Vaux (57 and 8 years)
Senior Vice President, Corporate Development

Geoffrey H. Wilson (50 and 19 years)
Senior Vice President, Investor Relations and Public Affairs

Manny DiFilippo (46 and 14 years)
Vice President, Risk Management and Internal Audit Services

J. Bradley Holland (42 and 12 years)
Vice President, Taxation

Michael N. Kimber (50 and 21 years)
Vice President, Legal Counsel

Kirk W. Mondesire (45 and 20 years)
Vice President, Corporate Systems

Lucy J. Paglione (46 and 22 years)
Vice President, Pension and Benefits

Rolando Sardellitti (38 and 11 years)
Vice President, Controller

Lisa R. Swartzman (35 and 12 years)
Vice President, Treasurer

Ann Marie Yamamoto (45 and 19 years)
Vice President, Systems Audit

Patrick MacDonell (36 and 10 years)
Controller, Planning & Analysis

Marian M. Burrows (51 and 27 years)
Assistant Secretary

Walter H. Kraus (43 and 17 years)
Senior Director, Environmental Affairs

Swavek A. Czapinski (31 and 7 years)
Assistant Treasurer

M. Darryl Hanstead (31 and 7 years)
Assistant Treasurer

SHAREHOLDER AND CORPORATE INFORMATION

Executive Office
George Weston Limited
22 St. Clair Avenue East
Toronto, Canada M4T 2S7
Tel: 416.922.2500
Fax: 416.922.4395
www.weston.ca

Stock Exchange Listing and Symbols
The Company's common and preferred shares are listed on the Toronto Stock Exchange and trade under the symbols: "WN", "WN.PR.A", "WN.PR.B", "WN.PR.C" and "WN.PR.D".

Common Shares
At year end 2005, there were 129,038,226 common shares outstanding, 1,101 registered common shareholders and 48,354,078 common shares available for public trading.

The average 2005 daily trading volume of the Company's common shares was 68,945.

Preferred Shares
At year end 2005, there were 9,400,000 preferred shares Series I outstanding, 10,600,000 preferred shares Series II outstanding, 8,000,000 preferred shares Series III outstanding and 8,000,000 preferred shares Series IV outstanding and 61 registered preferred shareholders. All outstanding preferred shares were available for public trading.

The average 2005 daily trading volume of the Company's preferred shares was:

Series I:	7,349
Series II:	8,195
Series III:	28,445
Series IV:	19,768

Common Dividend Policy
It is the Company's policy to maintain a dividend payment equal to approximately 20% to 25% of the prior year's adjusted basic net earnings from continuing operations per common share.

Common Dividend Dates
The declaration and payment of quarterly common dividends are made subject to approval by the Board of Directors. The anticipated record and payment dates for 2006 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Jan. 1

Normal Course Issuer Bid
The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

Value of Common Shares
For capital gains purposes, the valuation day (December 22, 1971) cost base for the Company, adjusted for the 4 for 1 stock split (effective May 27, 1986) and the 3 for 1 stock split (effective May 8, 1998), is $1.50 per share. The value on February 22, 1994 was $13.17 per share.

Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada M5J 2Y1

Tel:	416.263.9200
Toll Free Tel:	1.800.663.9097
Fax:	416.263.9394
Toll Free Fax:	1.888.453.0330

To change your address or eliminate multiple mailings, or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Independent Auditors
KPMG LLP
Chartered Accountants
Toronto, Canada

Annual Meeting
The George Weston Limited Annual Meeting of Shareholders will be held on Thursday, May 11, 2006 at 11:00 a.m. at the Metro Toronto Convention Centre, Constitution Hall, Toronto, Canada.

Trademarks
George Weston Limited and its subsidiaries own a number of trademarks. These trademarks are the exclusive property of George Weston Limited and its subsidiary companies. Trademarks where used in this report are in italics.

Investor Relations
Shareholders, security analysts and investment professionals should direct their requests to Mr. Geoffrey H. Wilson, Senior Vice President, Investor Relations and Public Affairs at the Company's Executive Office or by e-mail at investor@weston.ca.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR). The Company holds an analyst call shortly following the release of its quarterly results, which is broadcast live on the Company's website. These calls are archived in the Investor Zone section of the Company's website.

This Annual Report includes selected information on Loblaw Companies Limited, a 62%-owned public reporting subsidiary company with shares trading on the Toronto Stock Exchange.

Ce rapport est disponible en français.

This Annual Summary was printed in Canada on Cougar Opaque, manufactured totally chlorine-free with 10% post-consumer fibre, at a mill independently certified as meeting the procurement provisions of the Sustainable Forestry Initiative® (SFI) standard.

Design and Coordination: Ove Design & Communications Ltd. www.ovedesign.com **Typesetting:** Moveable Inc. www.moveable.com **Printing:** Transcontinental Printing G.P.

HOWARD ROSS LIBRARY OF MANAGEMENT
McGILL UNIVERSITY

Weston

Management's Discussion and Analysis 1 | Financial Results 50

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements	1
Overview	1
Vision	2
Operating and Financial Strategies	2
Key Performance Indicators	3
Overall Financial Performance	3
Consolidated Results of Operations	3
Consolidated Financial Condition	11
Results of Reportable Operating Segments	14
Weston Foods Operating Results	14
Loblaw Operating Results	19
Liquidity and Capital Resources	23
Major Cash Flow Components	23
Sources of Liquidity	25
Contractual Obligations	26
Off-Balance Sheet Arrangements	27
Quarterly Results of Operations	28
Quarterly Financial Information	29
Fourth Quarter Results	30
Disclosure Controls and Procedures	34
Operating Risks and Risk Management	34
Financial Risks and Risk Management	37
Related Party Transactions	39
Critical Accounting Estimates	39
Accounting Standards Implemented in 2005	41
Future Accounting Standards	43
Outlook	44
Non-GAAP Financial Measures	44
Additional Information	49

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("Weston") and its subsidiaries (collectively, the "Company") should be read in conjunction with the consolidated financial statements and the accompanying notes on pages 51 to 87 of this Financial Report. The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. As a result of implementing Accounting Guideline 15, "Consolidation of Variable Interest Entities", ("AcG 15") effective January 1, 2005, these consolidated financial statements include the accounts of George Weston Limited and its subsidiaries and variable interest entities ("VIEs") that the Company is required to consolidate. A more comprehensive discussion regarding the implementation of AcG 15 is included in the Accounting Standards Implemented in 2005 section below. A Glossary of terms and ratios used throughout this Financial Report can be found on page 91. The information in this MD&A is current as of March 10, 2006, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

The Annual Report, including this MD&A, contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions.

These forward-looking statements are not guarantees, but only predictions. Although the Company believes that these statements are based on information and assumptions, which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from the estimates, projections and intentions. Such differences may be caused by factors which include, but are not limited to, changes in consumer spending, preferences and consumers' nutritional and health related concerns, changes in the competitive environment, including changes in pricing and market strategies of the Company's competitors and the entry of new competitors and expansion of current competitors, the availability and cost of raw materials and ingredients, fuels and utilities, the ability to realize anticipated cost savings, including those resulting from restructuring and other cost reduction initiatives, the ability to execute restructuring plans effectively, the Company's relationship with its employees, results of labour negotiations including the terms of future collective bargaining agreements, changes to the regulatory environment in which the Company operates now or in the future, changes in the Company's tax liabilities, either through changes in tax laws or future assessments, performance of third-party service providers, public health events, the ability of the Company to attract and retain key executives, the success rate of the Company in developing and introducing new products and entering new markets and supply and quality control issues with vendors. The Company cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Operating and Financial Risks and Risk Management sections of this MD&A.

The assumptions applied in making the forward-looking statements contained in the Annual Report, including this MD&A, include the following: economic conditions in 2006 do not materially change from those expected, patterns of consumer spending and preferences are reasonably consistent with historical trends, no new significant competitors enter the Company's market nor does any existing competitor significantly increase its presence or change pricing or market strategies, anticipated cost savings from restructuring activities are realized as planned, continuing future restructuring activities are effectively executed, there are no material work stoppages in 2006 and the performance of third-party service providers is in accordance with expectations in the upcoming year.

Potential investors and other readers are urged to consider these factors carefully in evaluating these forward-looking statements and are cautioned not to place undue reliance on them. The forward-looking statements included in the Annual Report, including this MD&A, are made only as of the filing date of the Annual Report and the Company does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events contained in these forward-looking statements may or may not occur. The Company cannot assure that projected results or events will be achieved.

OVERVIEW

Weston is a Canadian public company, founded in 1882, and is one of North America's largest food processing and distribution companies. Weston has two reportable operating segments: Weston Foods and Loblaw. The Weston Foods operating segment is primarily engaged in the baking and dairy industries within North America. 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 general merchandise, drugstore, and financial products and services. In prior years, the Company reported the Loblaw segment as the Food Distribution segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

VISION

Weston's vision has been, and continues to be, centred on three main principles: growth, innovation and flexibility. Weston seeks long term, stable growth in its operating segments, while accepting prudent operating risks through continuous capital investment supported by a strong balance sheet, with the goal of providing sustainable returns to its shareholders 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.

OPERATING AND FINANCIAL STRATEGIES

In order to be successful in delivering long term value and to fulfill its long term objectives of security and growth, the Company employs various operating and financial strategies in order to achieve its long term vision. Each of the Company's two reportable operating segments has its own risk profile and operating risk management strategy.

Weston Foods' long term operating strategies include:

- focusing on core brands, products, customers and markets;
- focusing on the development of new products to grow market share and penetration;
- ensuring its range of products are meeting the nutritional and dietary concerns of consumers;
- ongoing cost reduction initiatives to ensure a low cost operating structure and economies of scale;
- simplifying and removing complexity from both manufacturing and distribution processes;
- targeting strategic acquisitions and relationships to broaden market penetration and expand geographic presence; and
- continuous capital investment to strategically position production facilities across North America to support growth and enhance productivity and efficiencies.

Loblaw's long term operating strategies include:

- using the cash flow generated in its business to invest in its future;
- owning its real estate, where possible, to maximize flexibility for product and business opportunities in the future;
- using a multi-format approach to maximize market share over the longer term;
- focusing on food but serving the consumer's everyday household needs;
- creating customer loyalty and enhancing price competitiveness through a superior control label program;
- implementing and executing plans and programs flawlessly; and
- constantly striving to improve its value proposition.

The Company's financial strategies include:

- maintaining a strong balance sheet;
- minimizing the risks and costs of its operating and financing activities; and
- maintaining liquidity and access to capital markets.

The Company's Board of Directors (the "Board") and senior management meet annually to review the strategic imperatives. These strategic imperatives, which generally span a three to five year time frame, target specific issues in response to changes in consumer needs and the competitive landscape.

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

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	2005	2004
Sales growth[2]	**5.3%**	2.7%
Sales growth excluding impact of VIEs[1]	**4.0%**	2.7%
Basic net earnings per common share from continuing operations growth	**16.9%**	(24.0)%
Adjusted basic net earnings per common share from continuing operations growth[1]	**2.5%**	(5.8)%
Net debt (excluding exchangeable debentures)[1] to equity ratio	**1.02:1**	1.26:1
Return on average common shareholders' equity	**16.7%**	14.8%
Common dividend payout ratio	**26.2%**	24.7%

(1) See Non-GAAP Financial Measures beginning on page 44.
(2) Sales growth in 2004 calculated on a 53-week year base in 2003. The extra week in 2003 had a negative impact of approximately 2% on the 2004 sales growth shown in the table above.

In addition, 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, product return rates, production waste and market share.

OVERALL FINANCIAL PERFORMANCE

CONSOLIDATED RESULTS OF OPERATIONS

($ millions except where otherwise indicated)	2005	2004	2003
Sales	**$ 31,363**	$ 29,798	$ 29,021
Sales excluding impact of VIEs[1]	**$ 30,985**	$ 29,798	$ 29,021
Operating income	**$ 1,634**	$ 1,782	$ 1,832
Adjusted operating income[1]	**$ 1,894**	$ 1,901	$ 1,881
Interest expense and other financing charges	**$ 187**	$ 438	$ 266
Net earnings from continuing operations	**$ 716**	$ 606	$ 807
Net earnings	**$ 698**	$ 428	$ 792
Basic net earnings from continuing operations per common share ($)	**$ 5.25**	$ 4.49	$ 5.91
Adjusted basic net earnings from continuing operations per common share ($)[1]	**$ 5.64**	$ 5.50	$ 5.84
Basic net earnings per common share ($)	**$ 5.11**	$ 3.11	$ 5.80

(1) See Non-GAAP Financial Measures beginning on page 44.

Sales and Sales Growth Excluding Impact of VIEs[1]

($ millions except where otherwise indicated)	2005	2004	2003
Total sales	**$ 31,363**	$ 29,798	$ 29,021
Less: Sales attributable to the consolidation of VIEs pursuant to AcG 15	**378**		
Sales excluding impact of VIEs[1]	**$ 30,985**	$ 29,798	$ 29,021
Total sales growth[2]	**5.3%**	2.7%	
Less: Positive impact on sales growth attributable to the consolidation of VIEs pursuant to AcG 15	**1.3%**		
Sales growth excluding impact of VIEs[1]	**4.0%**	2.7%	

(1) See Non-GAAP Financial Measures beginning on page 44.
(2) Sales growth in 2004 calculated on a 53-week year base in 2003. The extra week in 2003 had a negative impact of approximately 2% on the 2004 sales growth shown in the table above.

Adjusted Operating Income[1]

($ millions)	2005	2004	2003
Operating income	**$ 1,634**	$ 1,782	$ 1,832
Add (deduct) impact of the following:			
Restructuring and other charges	**118**	122	60
Direct costs associated with supply chain disruptions	**30**		
Goods and Services Tax and provincial sales taxes	**40**		
Net effect of stock-based compensation and the associated equity derivatives	**72**	(3)	(11)
Adjusted operating income[1]	**$ 1,894**	$ 1,901	$ 1,881

(1) See Non-GAAP Financial Measures beginning on page 44.

Adjusted EBITDA[1]

($ millions)	2005	2004	2003
Adjusted operating income[1]	**$ 1,894**	$ 1,901	$ 1,881
Add (deduct) impact of the following:			
Depreciation and amortization	**684**	618	537
VIE depreciation and amortization	**(26)**		
Adjusted EBITDA[1]	**$ 2,552**	$ 2,519	$ 2,418

(1) See Non-GAAP Financial Measures beginning on page 44.

Adjusted Basic Net Earnings per Common Share from Continuing Operations[1]

Per common share ($)	2005	2004	2003
Basic net earnings per common share from continuing operations	**$ 5.25**	$ 4.49	$ 5.91
Add (deduct) impact of the following:			
Restructuring and other charges	**0.42**	0.58	0.24
Direct costs associated with supply chain disruptions	**0.09**		
Goods and Services Tax and provincial sales taxes	**0.14**		
Net effect of stock-based compensation and the associated equity derivatives	**0.46**	(0.01)	(0.08)
Accounting for Loblaw forward sale agreement	**(0.77)**	0.51	
Changes in statutory income tax rates	**0.02**		0.03
Resolution of certain income tax matters		(0.07)	(0.26)
Variable interest entities	**0.03**		
Adjusted basic net earnings per common share from continuing operations[1]	**$ 5.64**	$ 5.50	$ 5.84

(1) See Non-GAAP Financial Measures beginning on page 44.

Consolidated 2005 results reflect the transformational changes being undertaken by both the Weston Foods and Loblaw operating segments in order to position the businesses for strong growth in the future. Baking industry conditions have changed significantly over the past several years and the Company's North American baking operations have faced a challenging marketplace impacted by changing consumer eating preferences and food shopping patterns and a difficult sales pricing environment, as well as continued inflationary cost pressures. The Company continued to respond to these challenging conditions and execute on opportunities to improve the long term competitive position of its North American baking operations, which has resulted in further restructuring and other charges taken by the Company during 2005.

Results for the Loblaw operating segment were adversely affected by the short term costs associated with the significant transformational initiatives undertaken at Loblaw during 2005. Loblaw's need for this transformative process was driven by its assessments of a fast changing retail environment marked by increased consumer choice, low-cost global retailers and the addition of an increasingly unsustainable amount of industry square footage. Based on this assessment, Loblaw developed a comprehensive strategy designed to fortify its competitive position and to maintain its leadership role in meeting the food and everyday household needs of Canadian consumers. In pursuit of this strategy, Loblaw implemented a number of transformative changes to its organization during 2005, which resulted in certain restructuring and other charges taken by Loblaw. These changes included the restructuring of its supply chain network and the reorganizations involving its merchandising, procurement and operations groups, the establishment of a new national head office and Store Support Centre in Brampton, Ontario, which opened in the third quarter of 2005, and the relocation of general merchandise operations from Calgary, Alberta to the new office. A charge of $86 million was recorded in operating income in 2005 consisting of employee termination benefits resulting from planned involuntary terminations, site closing costs and fixed asset impairment and accelerated depreciation charges associated with these activities. Loblaw encountered challenges during the execution of planned changes to its systems, supply chain and general merchandise areas including certain supply chain systems conversions which were initiated as part of the creation of a national information technology platform and the start-up of a new third-party owned and operated general merchandise warehouse and distribution centre for eastern Canada. These challenges disrupted the flow of inventory to Loblaw's stores and caused Loblaw to incur additional operating costs. Additional incremental direct costs incurred in the handling, storage and movement of inventory resulting from these disruptions amounted to approximately $30 million for the year, which was recognized in operating income. Also in 2005, a charge was recorded relating to an audit and proposed assessment by the Canada Revenue Agency ("CRA") relative to Goods and Services Tax ("GST") on certain products sold during prior fiscal periods on which GST was not appropriately charged and remitted. In light of this proposed assessment, Loblaw assessed and estimated the potential liabilities for GST and provincial sales taxes ("PST") in other areas of its operations. Accordingly, a charge of $40 million was recorded in operating income to reflect the best estimate of such potential tax liabilities of which management is currently aware.

In addition, as previously mentioned in 2004 and consistent with Weston's strategy of focusing primarily on its core business segments, the Company completed the sale of the Fisheries business during 2005.

The following discussion summarizes the factors and trends that have impacted the Company's financial performance over the past two fiscal years.

In 2005, consolidated sales increased 5.3% to $31.4 billion from $29.8 billion in 2004. Sales growth for 2005 included a positive impact of approximately 1.3% from the consolidation of certain Loblaw independent franchisees as required by AcG 15. Sales excluding the impact of VIEs[1] increased 4.0% or $1.2 billion over the prior year. In 2004, consolidated sales increased 2.7% from $29.0 billion in 2003. Sales growth in 2004 included a 2% negative impact from the 53rd week in 2003. The 52-week reporting cycle followed by the Company periodically necessitates a 53-week fiscal year, which occurred in 2003. The 2005 consolidated net earnings from continuing operations increased $110 million, or 18.2%, to $716 million from $606 million in 2004. In 2004, consolidated net earnings from continuing operations decreased $201 million, or 24.9%, from $807 million in 2003. Consolidated net earnings increased $270 million, or 63.1%, to $698 million in 2005 from $428 million in 2004. In 2004, consolidated net earnings decreased $364 million, or 46.0%, from $792 million in 2003.

The 2005 basic net earnings per common share from continuing operations of $5.25 increased 16.9% in line with the increase in consolidated net earnings from continuing operations. The increase was primarily due to lower interest expense and other financing charges due to non-cash income of $150 million in 2005 compared to a non-cash charge of $101 million in 2004 relating to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares in accordance with accounting standards amended effective the third quarter of 2004. The 2005 basic net earnings per common share of $5.11 increased by 64.3% compared to $3.11 in 2004. The increase was primarily attributable to lower interest expense and other financing charges as explained above and a lower loss from discontinued operations in 2005.

The Company's consolidated financial statements are expressed in Canadian dollars but a significant portion of its Weston Foods business occurs in United States dollars through its investment in self-sustaining foreign operations in the United States ("U.S. net investment"). Changes in the exchange rate for United States dollars affect the Company's sales, net earnings and the value of the Company's assets and liabilities on its consolidated balance sheet, either positively or negatively, as a result of translating the U.S. net investment into Canadian dollars. In 2004 and 2005, due to the significant appreciation in the Canadian dollar relative to the United States dollar, sales, net earnings and the value of the Company's net assets were negatively impacted as a result of foreign currency translation.

(1) See Non-GAAP Financial Measures beginning on page 44.

Over the past two years, the Weston Foods baking operations have operated in a challenging marketplace impacted by changing consumer eating preferences and food shopping patterns and a difficult sales pricing environment, as well as continued inflationary cost pressures. The changing consumer eating preferences, including a focus on health and diet, have negatively impacted Weston Foods sales of traditional white flour based products, in particular white bread and fresh-baked sweet goods. In addition, consumer shopping patterns continue to shift toward alternate format retail channels over traditional, conventional supermarket formats. These continuing trends are more fully discussed under Weston Foods operating results in the Results of Reportable Operating Segments section of this MD&A.

During this two-year period, Weston Foods sales have been positively impacted by its focus on:

- penetrating new sales channels, particularly with alternate format retail channels;
- strong sales growth in the whole grain and higher-priced premium product categories;
- new private label business; and
- the development and introduction of new and expanded convenience and health related product offerings, including "On the Go" individual portioned products as well as Omega-3, no cholesterol, reduced fat, no trans fat and organic products.

In 2005, Weston Foods achieved sales price increases across many of its product categories. These increases helped to partially mitigate the impact of the continued cost inflation experienced across the baking industry. Over the last two years, Weston Foods has continued to restructure its asset base to reduce costs and operate more efficiently. Management continues to review cost reduction and other strategic initiatives, including manufacturing asset and distribution network optimization and a focus on reducing administrative costs, to ensure a low cost operating structure and a continual improvement in its competitive cost position.

Loblaw sales in 2005 increased 6.1% to $27.8 billion from $26.2 billion in 2004. Excluding the impact of VIEs[1], sales were $27.4 billion or 4.6% higher than 2004. Sales growth of 3.9% for the full year 2004 included a 2% negative impact from the 53rd week in 2003. Same-store sales increased 0.2% in 2005 and 1.5% in 2004 on an equivalent 52-week basis. National food price inflation as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI") was approximately 2% for 2005 compared to 1% to 2% in 2004. Loblaw's calculation of food price inflation, which considers Loblaw-specific product mix and pricing strategy was reasonably consistent with that of CPI. Sales growth in 2005 was adversely affected by supply chain disruptions by approximately 0.5% to 0.7% over 2004. Sales were also influenced by a number of other factors, including changes in net retail square footage, expansion into new services and/or departments and the activities of competitors. Over the past two years, an average of $1.2 billion annually in capital was invested, resulting in an increase in net retail square footage of approximately 6.2 million square feet or 14.7%. Corporate store sales per average square foot declined from $605 in 2003 (a 53-week year) to $579 in 2005. The amount of new net retail square footage and the timing of the store openings and closures within any given year may vary. The increase in weighted average net retail square footage was 7.5% in 2005 and 6.4% in 2004. The rollout of *The Real Canadian Superstore* in Ontario, Canada also had an impact on same-store sales in that region by replacing mature, well performing stores that were previously included in same-store sales, and by creating pricing pressure on other Loblaw stores located within the respective trading areas. In pursuit of improving its value proposition, Loblaw has established price leadership in specific markets by adopting everyday low pricing strategies. Consistent with its strategy of focusing on food but serving the consumer's everyday household needs, Loblaw has expanded its general merchandise and drugstore offerings over this period and the retail sales growth realized in those categories continued to surpass retail sales growth of food. Competitor activity varied by market. During the past two years, unprecedented levels of retail square footage, mainly associated with food offerings, have been introduced into certain markets, resulting in pressure on prices and customer retention.

The following analysis details factors that have impacted the Company's consolidated sales and net earnings over the past two years.

Sales The Company's 2005 consolidated sales increased 5.3% to $31.4 billion from $29.8 billion in 2004, including a positive impact of approximately 1.3% from the consolidation of certain Loblaw independent franchisees as required by AcG 15 and a negative impact of approximately 0.7% from the foreign currency translation of the Weston Foods operating segment.

Consolidated sales growth for 2005 was impacted by each reportable operating segment as follows:

- Positively by 0.1% due to the sales increase of 0.9% at Weston Foods, which included the negative impact of foreign currency translation of approximately 5.1%.
- Positively by 5.3% due to the sales increase of 6.1% at Loblaw, which included the positive impact of approximately 1.5% from the consolidation of certain Loblaw independent franchisees as required by AcG 15. Sales and same-store sales were adversely affected by supply chain disruptions experienced during 2005.

(1) See Non-GAAP Financial Measures beginning on page 44.

The Company's 2004 consolidated sales increased 2.7% to $29.8 billion from $29.0 billion in 2003, including a negative impact of approximately 2% from the 53rd week in 2003 and a negative impact of approximately 1% from the foreign currency translation of the Weston Foods operating segment.

Consolidated sales growth for 2004 was impacted by each reportable operating segment as follows:

- Negatively by 0.6% due to the sales decline of 4.2% at Weston Foods, which included the negative impact of foreign currency translation of approximately 6% and a negative impact of approximately 2% due to the additional week in 2003.
- Positively by 3.4% due to the sales increase of 3.9% at Loblaw, which included the negative impact of approximately 2% due to the additional week in 2003, partially offset by same-store sales growth of 1.5% on an equivalent 52-week basis.

Operating Income The Company's 2005 consolidated operating income decreased $148 million, or 8.3%, to $1,634 million. 2005 consolidated operating income included the negative impact of $260 million as a result of the following:

- a charge of $118 million related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a charge of $30 million related to Loblaw's estimated impact of direct costs associated with supply chain disruptions;
- a charge of $40 million related to Loblaw's estimate of GST and PST charges; and
- a charge of $72 million for the net effect of stock-based compensation and the associated equity derivatives. The amount of net stock-based compensation cost recorded in operating income is dependent upon the number of unexercised, vested stock options and restricted share units, the number of underlying common shares associated with the equity derivatives and the fluctuations in the market price of the underlying common shares.

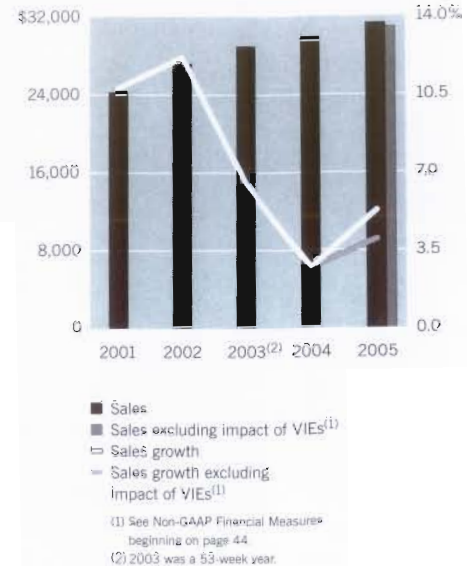
After adjusting for the negative impact of the items described above, consolidated adjusted operating income[1] for 2005 was $1,894 million compared to $1,901 million in 2004, a decline of 0.4%.

The Company's 2005 consolidated adjusted operating income[1] was impacted by each of its reportable operating segments as follows:

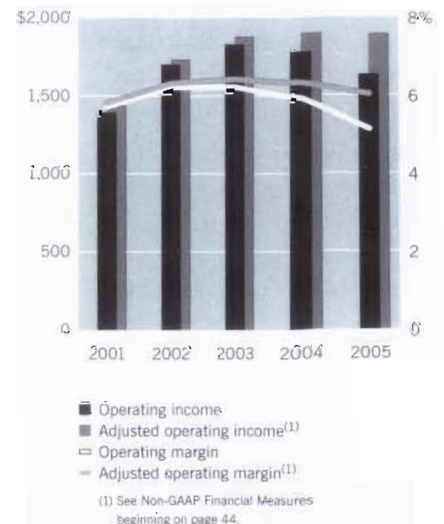
- Positively by 2.4% due to an increase of 18.0% in adjusted operating income[1] at Weston Foods, including the negative impact of foreign currency translation as a result of the appreciation of the Canadian dollar relative to the United States dollar. In addition, Weston Foods operating income was positively impacted by sales growth, including volume, price and sales mix improvements, and by the benefits being realized from restructuring and other cost reduction activities initiated in 2004 and 2005.
- Negatively by 2.8% due to a decrease of 3.2% in adjusted operating income[1] at Loblaw. Softening sales from product supply issues and deliberate delays in program activity in 2005 resulted in lost leverage on the fixed components of operating and administrative expenses.

The Company's 2005 consolidated adjusted operating margin[1] declined to 6.1% from 6.4% in 2004, and consolidated adjusted EBITDA margin[1] declined to 8.2% from 8.5% in 2004. Consolidated adjusted operating margin[1] declined in 2005 primarily due to the lower adjusted operating margin[1] at Loblaw, partially offset by the higher adjusted operating margin[1] at Weston Foods.

Sales and Sales Growth
($ millions)



Operating Income and Margin, Adjusted Operating Income[1] and Margin[1]
($ millions)



(1) See Non-GAAP Financial Measures beginning on page 44.

The Company's 2004 consolidated operating income decreased $50 million, or 2.7%, to $1,782 million from $1,832 million in 2003. 2004 consolidated operating income included the net negative impact of $119 million as a result of the following:

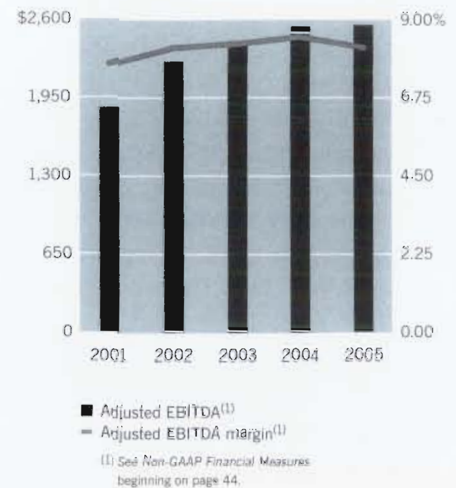
- a charge of $122 million primarily related to restructuring and other charges for restructuring plans undertaken by Weston Foods; and
- income of $3 million for the net effect of stock-based compensation and the associated equity derivatives.

After adjusting for the net negative impact of the items described above, consolidated adjusted operating income[1] for 2004 was $1,901 million compared to $1,881 million in 2003, an increase of 1.1%.

The Company's 2004 consolidated adjusted operating income[1] was impacted by each of its reportable operating segments as follows:

- Negatively by 7.7% due to a decline of 36.3% in adjusted operating income[1] at Weston Foods, primarily due to the significant inflation in ingredient, energy and employee related costs, higher consumer promotions and higher ingredient, production, distribution and product launch costs incurred as a result of the complexities associated with many of the new low-carb product introductions and ongoing changes in product sales mix. In addition, Weston Foods 2004 operating income was negatively impacted by foreign currency translation as a result of the significant appreciation of the Canadian dollar relative to the United States dollar.
- Positively by 8.8% due to an increase of 11.2% in adjusted operating income[1] at Loblaw, primarily due to improvements in operating margins due to buying synergies, a continued focus on administrative cost control and the efficiency resulting from improvements in supply chain operations.

Analysis of Adjusted EBITDA[1] and Margin[1]
($ millions)



The Company's 2004 consolidated adjusted operating margin[1] declined to 6.4% from 6.5% in 2003, and consolidated adjusted EBITDA margin[1] increased to 8.5% from 8.3% in 2003. Consolidated adjusted operating margin[1] declined in 2004 primarily due to the lower adjusted operating margin[1] at Weston Foods, partially offset by the higher adjusted operating margin[1] at Loblaw.

Interest Expense and Other Financing Charges Interest expense and other financing charges consist primarily of interest on short and long term debt, the amortization of deferred financing costs, interest and other financing charges on financial derivative instruments, interest earned on short term investments and interest capitalized to fixed assets.

In 2005, interest expense and other financing charges decreased $251 million, or 57.3%, to $187 million from $438 million in 2004. The change is explained as follows:

- Interest expense on long term debt decreased $8 million, or 1.9%, to $404 million from $412 million in 2004 primarily as a result of lower weighted average interest rates.
- Interest on financial derivative instruments, which includes the net positive effect of the Company's interest rate swaps, cross currency basis swaps and equity derivatives, amounted to income of $1 million (2004 – $28 million). The decrease in net interest income was due mainly to the maturity of interest rate swaps during the year and an increase in United States short term interest rates.
- Non-cash income of $150 million (2004 – non-cash charge of $101 million) was recorded in other financing charges representing the fair value adjustment of Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares (the "underlying Loblaw shares"). The fair value adjustment is based on the fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the underlying Loblaw shares (see notes 5 and 20 to the consolidated financial statements for additional information).
- Net short term interest income increased to $25 million (2004 – $7 million) primarily due to higher interest rates on United States dollar denominated cash, cash equivalents and short term investments and lower average short term debt partially offset by an increase in Canadian short term interest rates.
- Interest expense capitalized to fixed assets remained unchanged at $21 million as compared to 2004. Loblaw capitalizes interest incurred on debt related to real estate properties under development.

The 2005 weighted average fixed interest rate on long term debt (excluding capital lease obligations and the Exchangeable Debentures) was 6.6% (2004 – 6.7%) and the weighted average term to maturity was 16 years (2004 – 16 years).

(1) See Non-GAAP Financial Measures beginning on page 44.

In 2004, interest expense and other financing charges increased $172 million, or 64.7%, to $438 million from $266 million in 2003. The change is explained as follows:

- Interest expense on long term debt increased $15 million, or 3.8%, to $412 million from $397 million in 2003 as a result of an increase in average borrowing levels partially offset by lower weighted average interest rates and the impact of the 53rd week in 2003.
- Interest on financial derivative instruments amounted to income of $28 million (2003 – $84 million). The decrease in interest income was mainly due to the termination of currency and interest rate derivatives in late 2003 and the maturity of interest rate swaps during 2004.
- A non-cash charge of $101 million was recorded in other financing charges representing the fair value adjustment of Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares. The Company began recognizing this charge prospectively during the third quarter of 2004 due to the implementation of the amendment to Emerging Issues Committee ("EIC") Abstract 56, "Exchangeable Debentures" ("EIC 56"), which became effective at the beginning of the third quarter of 2004.
- Net short term interest income of $7 million compared to interest expense of $6 million in 2003 due in part to interest income on income tax refunds received in 2004 and lower floating Canadian interest rates, partially offset by lower United States dollar denominated cash, cash equivalents and short term investments.
- Interest expense capitalized to fixed assets amounted to $21 million (2003 – $33 million).

In 2006, interest expense and other financing charges is expected to be relatively consistent with 2005 except for the non-cash income or charge related to the fair value adjustment of Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares, which fluctuates as the market price of Loblaw common shares changes.

Income Taxes The Company's 2005 effective income tax rate increased to 30.6% from 27.4% in 2004. The increase was the result of the following factors:

- a change in the proportion of taxable income earned across different tax jurisdictions, including the jurisdictions in which the income tax impacts of restructuring and other charges and stock-based compensation and the associated equity derivatives occurred;
- Loblaw's successful resolution in 2004 of certain income tax matters from a previous year; and
- a $3 million charge in 2005 for an adjustment to future income tax balances due to statutory income tax rate changes in certain Canadian provinces.

The Company's 2004 effective income tax rate decreased to 27.4% from 27.8% in 2003. The decrease was the result of the following factors:

- a decline in the Canadian federal statutory income tax rate;
- Loblaw's successful resolution in 2004 of certain income tax matters from a previous year of $14 million;
- a change in the proportion of taxable income earned across different tax jurisdictions, including the jurisdictions in which the income tax impacts of restructuring and other charges and stock-based compensation and the associated equity derivatives occurred;
- a $7 million charge in 2003 for an adjustment to future income tax balances due to the increase in corporate income tax rates in Ontario, Canada; and
- a reduction in 2003 of $34 million to the income tax expense due to the favourable resolution of an income tax issue previously accrued for by the Company, which related to the disposition of Weston's forest products business in 1998.

The Company's 2006 effective income tax rate is expected to be reasonably consistent with the 2005 effective tax rate. However, this may change if the proportion of taxable income earned across the different tax jurisdictions changes or if there is any change in tax legislation.

Net Earnings from Continuing Operations Net earnings from continuing operations for 2005 increased $110 million, or 18.2%, to $716 million from $606 million in 2004. Basic net earnings per common share from continuing operations for 2005 increased $0.76, or 16.9%, to $5.25 from $4.49 in 2004. The 2005 basic net earnings per common share from continuing operations of $5.25 included the net negative impact of $0.39 per common share as a result of the following factors:

- a $0.42 per common share charge related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a $0.09 per common share charge related to Loblaw's estimated impact of direct costs associated with supply chain disruptions;
- a $0.14 per common share charge related to Loblaw's estimate of GST and PST charges;
- a $0.46 per common share charge for the net effect of stock-based compensation and the associated equity derivatives;
- $0.77 per common share non-cash income related to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares which is offset on an economic basis;
- a $0.02 per common share charge related to the adjustment to future income tax balances due to the changes in statutory income tax rates in certain Canadian provinces; and
- a $0.03 per common share charge related to the consolidation of VIEs by Loblaw.

(1) See Non-GAAP Financial Measures beginning on page 44.

After adjusting for the above noted items, Weston's 2005 adjusted basic net earnings per common share from continuing operations[1] was $5.64 compared to $5.50 in 2004, an increase of 2.5%.

Net earnings from continuing operations for 2004 decreased $201 million, or 24.9%, to $606 million from $807 million in 2003. Basic net earnings per common share from continuing operations for 2004 decreased $1.42, or 24.0%, to $4.49 from $5.91 in 2003. The 2004 basic net earnings per common share from continuing operations of $4.49 included the net negative impact of $1.01 per common share as a result of the following factors:

- a $0.31 per common share charge related to the impairment of fixed assets and intangible assets associated with the Weston Foods *Entenmann's* operation in the United States;
- a $0.27 per common share charge related to restructuring and other charges for other Weston Foods bakery facilities;
- $0.01 per common share income for the net effect of stock-based compensation and the associated equity derivatives;
- a $0.51 per common share non-cash charge related to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares; and
- $0.07 per common share income related to Loblaw's successful resolution in 2004 of certain income tax matters from a previous year.

After adjusting for the above noted items, Weston's 2004 adjusted basic net earnings per common share from continuing operations[1] was $5.50. This result compares to 2003 adjusted basic net earnings per common share from continuing operations[1] of $5.84 which was adjusted for the net negative impact of restructuring and other charges, stock-based compensation and the associated equity derivatives, changes in statutory income tax rates and the resolution of certain income tax matters from a previous year. Adjusted basic net earnings per common share from continuing operations[1] for 2004 decreased 5.8% compared to 2003.

Discontinued Operations The loss from discontinued operations in 2005 was $18 million compared to a loss of $178 million in 2004. During 2005, the Company completed the sales of the remaining discontinued Fisheries operations. As a result of these sales, the Company will receive total net proceeds of $38 million, of which $12 million will be deferred over the next four years, and recorded an after-tax loss of $24 million as a loss from discontinued operations during 2005.

Subsequent to year end 2005, the Company reached an agreement to settle claims against it relating to certain alleged misrepresentations and warranties arising from the sale of the Company's forest products business in 1998, including tax related representations and warranties dealing with years prior to 1998. The Company did not admit any wrongdoing or liability in connection with the settlement. The net impact of this settlement agreement has been reflected in the 2005 loss from discontinued operations.

The loss from discontinued operations for 2004, net of income taxes, was $178 million, compared to $15 million in 2003, including the charge related to the impairment of assets and the loss on the sale of the operations in Chile incurred in 2004. During 2004, Weston sold all of the Fisheries operations in Chile for cash proceeds of $20 million, which resulted in a loss of $9 million.

For additional information, see note 9 to the consolidated financial statements.

Net Earnings Changes in the Company's net earnings over the past two years were impacted by the factors described above. In addition, the Company implemented several new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") that impacted the financial results over the past two years. The following standards were implemented in 2004:

- Section 3063, "Impairment of Long-Lived Assets";
- AcG 13, "Hedging Relationships";
- Section 3110, "Asset Retirement Obligations";
- EIC Abstract 144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor";
- Amendments to EIC Abstract 56, "Exchangeable Debentures" ("EIC 56"); and
- Section 3461, "Employee Future Benefits" (for enhanced disclosure).

The implementation of these standards did not have a material impact on the Company's financial position or results of operations in 2004, except for EIC 56 as described above.

The new accounting standards implemented in 2005 and the resulting impact on the financial position and results of operations are outlined in the Accounting Standards Implemented in 2005 section of this MD&A.

Minority interest did not have a significant impact on the Company's net earnings growth rates over the past two years as Weston's ownership of Loblaw has not significantly changed over this period.

(1) See Non-GAAP Financial Measures beginning on page 44.

CONSOLIDATED FINANCIAL CONDITION

($ millions except where otherwise indicated)	2005	2004[1]	2003[1]
Total assets	$ 18,593	$ 17,769	$ 17,278
Total long term debt (excluding amount due within one year)	$ 5,913	$ 6,004	$ 5,829
Dividends declared per share ($) – Common share	$ 1.44	$ 1.44	$ 1.20
– Preferred share:			
Series I	$ 1.45	$ 1.45	$ 1.45
Series II	$ 1.29	$ 1.29	$ 1.29
Series III	$ 0.92		
Series IV	$ 0.54		

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

The Company's total assets have increased over the past two years. Fixed assets have grown as a result of the capital investment program net of annual depreciation of both the Weston Foods and Loblaw operating segments and the impairment and accelerated depreciation charges taken within both operating segments. In 2004, Weston Foods acquired Boulangerie Gadoua Ltée ("Gadoua") with total assets valued at $75 million. Also in 2004, as a result of the annual impairment test of indefinite life intangible assets, Weston Foods recorded an impairment charge of $18 million related to the *Entenmann's* trademarks and brand names. Loblaw inventory growth resulted primarily from an investment in general merchandise. Loblaw's inventory turns of general merchandise categories are lower than those of food categories, resulting in higher aggregate levels of investment in general merchandise inventories as that business develops. A substantial portion of credit card receivables of President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw, is sold to an independent trust and the unsecuritized balance net of the allowance for credit losses has increased by $94 million since 2003. The decrease in other assets resulted from a reduction in the Domtar Inc. investment due to exchanges of the 3% Exchangeable Debentures for Domtar Inc. common shares during 2005. In 2005 and 2004, the Company's total assets were reduced by the translation of the Company's U.S. net investment in self-sustaining operations due to the significant strengthening of the Canadian dollar relative to the United States dollar.

Cash flows from operating activities have covered a large portion of the funding requirements for the Company over the past two years. For each of 2005 and 2004, total long term debt issued net of the amounts retired was approximately $100 million. In addition, long term debt increased in 2005 as a result of consolidating $126 million of VIE long term debt ($23 million of which is due within one year) pursuant to AcG 15. The amount of fixed rate debt issued in any given year is intended to continue to preserve the Company's liquidity needs. Cash flows from operating activities in 2005 exceeded the Company's capital investment program of $1.4 billion.

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

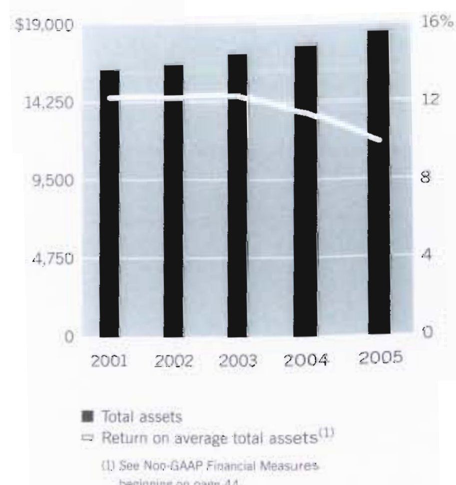
- the capital investment program;
- dividends paid on common and preferred shares;
- defined benefit pension plan contributions;
- non-cash working capital requirements; and
- purchases of Weston and Loblaw common shares pursuant to their respective Normal Course Issuer Bids ("NCIB").

In 2005, as a result of the strengthening of the Canadian dollar relative to the United States dollar, the change in the cumulative foreign currency translation adjustment decreased shareholders' equity by $114 million (2004 – $213 million). This net change was due to the negative impact of translating the Company's U.S. net investment.

Financial Ratios In 2005, the Company's financial position as measured by its financial ratios, balance sheet and cash flow, continued to be strong. This position is expected to continue in 2006.

The Company's 2005 return on average total assets[1] of 10.0% was lower than the 2004 return of 11.5%. The return was negatively impacted in 2005 by the incremental costs and charges recorded in operating income as outlined above. The Company's 2004 return on average total assets of 11.5% was lower than the 2003 return of 12.4%. This return was negatively impacted in 2004 by the incremental costs and charges recorded in operating income as outlined above.

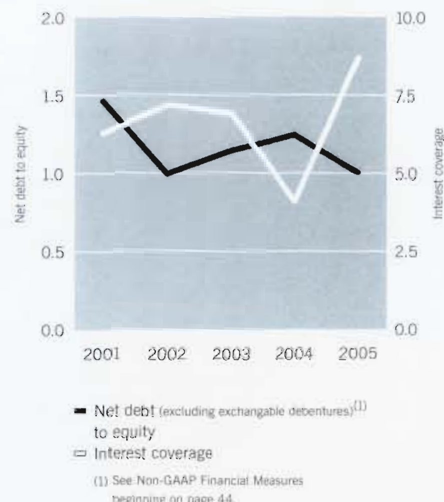
Total Assets and Return on Average Total Assets[1]
($ millions)



(1) See Non-GAAP Financial Measures beginning on page 44.

The Company's 2005 return on average common shareholders' equity of 16.7% increased compared to the 2004 return of 14.8%, primarily due to lower interest expense and other financing charges including the $150 million non-cash income (2004 – non-cash charge of $101 million) related to the fair value adjustment of Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares, partially offset by the incremental costs and charges recorded in operating income as outlined above. The Company's 2004 return on average common shareholders' equity of 14.8% was lower than the 2003 return of 20.0%. This decrease in 2004 was mainly due to lower net earnings from continuing operations, which included the impact of lower Weston Foods operating results and higher interest expense and other financing charges including the $101 million non-cash charge related to the fair value adjustment of Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares. The five year average annual return on common shareholders' equity was 17.9%.

Net Debt[1] to Equity and Interest Coverage



Net debt (excluding exchangable debentures)[1] to equity
Interest coverage

(1) See Non-GAAP Financial Measures beginning on page 44.

The Company's 2005 net debt (excluding exchangeable debentures)[1] to equity ratio was 1.02:1 compared to the 2004 ratio of 1.26:1. The change in this ratio from 2004 was the result of the following factors:

- lower average debt levels;
- the issuance of preferred shares by Weston;
- an increase in United States dollar denominated cash, cash equivalents and short term investments net of the impact of foreign currency translation as a result of the appreciation of the Canadian dollar relative to the United States dollar in 2005;
- higher net earnings primarily due to:
  - the $150 million non-cash income related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares; and
  - a lower loss from discontinued operations; partially offset by
  - lower Loblaw earnings due to the short term costs associated with the significant transformational initiatives at Loblaw;

offset by:

- the decrease in shareholders' equity resulting from the translation of the Company's U.S. net investment due to the appreciation of the Canadian dollar relative to the United States dollar in 2005.

The Company's 2004 net debt (excluding exchangeable debentures)[1] to equity ratio was 1.26:1 compared to the 2003 ratio of 1.16:1. The change in this ratio from 2003 was the result of the following factors:

- lower net earnings primarily due to:
  - the restructuring and other charges incurred by Weston Foods in 2004;
  - the $101 million non-cash charge related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares; and
  - the loss from discontinued operations;
- higher average debt levels;
- the purchase of Weston common shares for cancellation pursuant to its NCIB;
- a decrease in United States dollar denominated cash, cash equivalents and short term investments resulting from foreign currency translation and the decrease in shareholders' equity resulting from the translation of the Company's U.S. net investment due to the significant appreciation of the Canadian dollar relative to the United States dollar in 2004; and
- increased funding requirements, primarily due to defined benefit pension plan contributions and working capital requirements.

The 2006 ratio is expected to improve as retained earnings growth is expected to exceed funding requirements.

Pursuant to the requirements of AcG 15, the consolidated balance sheet as at December 31, 2005 includes $126 million of loans payable of VIEs consolidated by the Company, $23 million of which are due within one year. The loans payable represent financing obtained by eligible Loblaw independent franchisees through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixturing and equipment. These loans payable, which have an average term to maturity of 7 years, are due and payable on demand under certain predetermined circumstances and are secured through a general security agreement made by the independent franchisees in favour of the independent funding trust. Interest is charged on a floating rate basis and prepayment of the loans may be made without penalty. The independent funding trust within the structure finances its activities through the issuance of short term asset-backed notes to third-party investors.

(1) See Non-GAAP Financial Measures beginning on page 44.

As disclosed in note 22 to the consolidated financial statements for the year ended December 31, 2005, a standby letter of credit has been provided by a major Canadian bank for the benefit of the independent funding trust equal to approximately 10% of the total principal amount of the loans outstanding at any point in time. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. In the event of a default by an independent franchisee, the independent funding trust may assign the loan to Loblaw and draw upon the standby letter of credit. No amount has ever been drawn on the standby letter of credit.

The 2005 interest coverage ratio improved to 8.7 times compared to 4.1 times in 2004 due to lower interest expense and other financing charges, including the $150 million non-cash income recorded in 2005 related to the fair value adjustment of Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares. This non-cash income related to the fair value adjustment of Weston's 2001 forward sale agreement positively impacted the 2005 interest coverage ratio by 3.9 times. The 2004 interest coverage ratio declined to 4.1 times compared to 6.9 times in 2003 due to lower operating income, higher interest expense and other financing charges, including the $101 million non-cash charge related to the fair value adjustment of Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares. The non-cash charge related to the fair value adjustment of Weston's 2001 forward sale agreement negatively impacted the 2004 interest coverage ratio by 1.2 times.

Dividends The Company's common share dividend policy is to maintain a common dividend payment equal to approximately 20% to 25% of the prior year's adjusted basic net earnings per common share from continuing operations[(1)], giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During 2005, Weston's Board declared quarterly dividends as follows:

($)	2005 Quarterly Dividends Declared per Share
Common shares	$ 0.36
Preferred shares – Series I	$ 0.36
– Series II	$ 0.32
– Series III	$ 0.32
– Series IV	$ 0.32

The 2005 annualized dividend per common share of $1.44 was equal to 26.2% of the 2004 adjusted basic net earnings per common share from continuing operations[(1)] and was slightly above Weston's common dividend policy range. Subsequent to year end, the Board declared a quarterly dividend per common share of $0.36, payable April 1, 2006 which, on an annualized basis, maintains the 2005 dividend rate per common share.

Outstanding Share Capital The Company'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.

Share Capital	Authorized	Outstanding
Common shares	Unlimited	129,038,226
Preferred shares – Series I	Unlimited	9,400,000
– Series II	Unlimited	10,600,000
– Series III	Unlimited	8,000,000
– Series IV	Unlimited	8,000,000

For preferred shares Series I, Series II, Series III and Series IV holders, Weston may at any time after issuance, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston. In addition, for preferred shares, Series II holders, on or after July 1, 2009, these outstanding preferred shares are convertible, at the option of the holder, into a number of Weston common shares determined by dividing $25.00 by the greater of $2.00 and 95% of the then current market price of Weston common shares. Further information on the Company's outstanding share capital is provided in note 18 to the consolidated financial statements.

(1) See Non-GAAP Financial Measures beginning on page 44.

RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion provides details of the 2005 results of operations of each of the Company's reportable operating segments.

WESTON FOODS OPERATING RESULTS

($ millions except where otherwise indicated)	2005	2004	Change
Sales	$ 4,376	$ 4,335	0.9%
Operating income	$ 241	$ 138	74.6%
Operating margin	5.5%	3.2%	
Adjusted operating income[(1)]	$ 302	$ 256	18.0%
Adjusted operating margin[(1)]	6.9%	5.9%	
Adjusted EBITDA[(1)]	$ 428	$ 401	6.7%
Adjusted EBITDA margin[(1)]	9.8%	9.3%	
Return on average total assets[(1)]	6.5%	3.6%	

(1) See Non-GAAP Financial Measures beginning on page 44.

Adjusted Operating Income[(1)]

($ millions)	2005	2004
Operating income	$ 241	$ 138
Add (deduct) impact of the following:		
Restructuring and other charges	32	121
Net effect of stock-based compensation and the associated equity derivatives	29	(3)
Adjusted operating income[(1)]	$ 302	$ 256

(1) See Non-GAAP Financial Measures beginning on page 44.

Adjusted EBITDA[(1)]

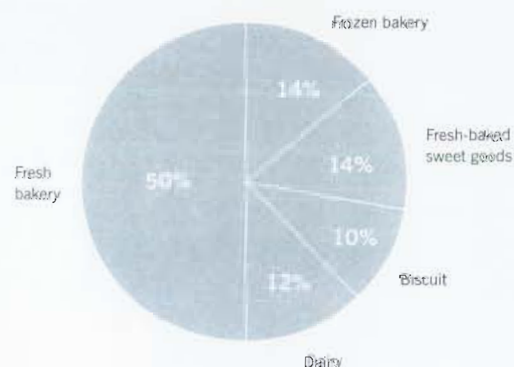
($ millions)	2005	2004
Adjusted operating income[(1)]	$ 302	$ 256
Add impact of the following:		
Depreciation and amortization	126	145
Adjusted EBITDA[(1)]	$ 428	$ 401

(1) See Non-GAAP Financial Measures beginning on page 44.

Approximately 88% of Weston Foods 2005 sales were generated by the North American baking divisions, with the remaining sales in the Canadian dairy division.

Sales and operating income in 2005 continued to be impacted by some of the same trends experienced in 2004. Most notably:

- Significant cost inflation was experienced in operations in a difficult sales pricing environment.
- Management's focus on cost reduction and growth initiatives resulted in certain restructuring charges in operating income.
- The shift in consumer food shopping patterns toward alternate format retail channels rather than traditional, conventional supermarket formats resulted in strong sales growth with alternate format retailers, specifically mass merchandisers. This shift has also resulted in weaker sales for some traditional food retailers as a result of the difficulties they are experiencing with the emergence of alternate channels for food products. Weston Foods continues its focus on ensuring its products are well aligned to serve the alternate format retail channel while maintaining its important positions with traditional food retailers.



- The shift in consumer eating preferences toward healthier and more nutritious offerings, as well as products that are more convenient, portion controlled and that can be consumed away from home continued to grow. Weston Foods has responded to these trends with innovative new and expanded products across its product portfolio. Not all consumer food trends are long lived: the popularity of extreme low-carb diets is declining; however, a more sustained shift in consumer preference for whole grain products rather than white flour based products continued throughout 2005. This trend is expected to continue into 2006. During 2004, Weston Foods launched several new low-carb offerings across many categories in response to anticipated strong consumer and customer demand. While sales volume in these products declined in 2005 over 2004, the trend in whole grain products has shown sustained strength. Weston Foods is well positioned to participate in this growth with investments being made in capacity and expanded product offerings under its *Thomas'*, *Arnold*, *Dutch Country*, *Wonder* and *Country Harvest* brands. Many of Weston Foods brands continue to capitalize on their whole grain heritage.

A detailed discussion on how these trends and other factors impacted sales and operating income in 2005 is set out below:

Sales Weston Foods 2005 reported sales increased 0.9% to $4.4 billion from $4.3 billion in 2004. Sales growth in 2005 was impacted by the following factors:

- Overall volume increases of 3.0% positively impacted sales growth. The acquisition of Gadoua in 2004 contributed 1.6% to overall volume growth.
- Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 3.0%.
- Foreign currency translation negatively impacted sales growth by 5.1% as a result of the further strengthening of the Canadian dollar relative to the United States dollar during 2005.

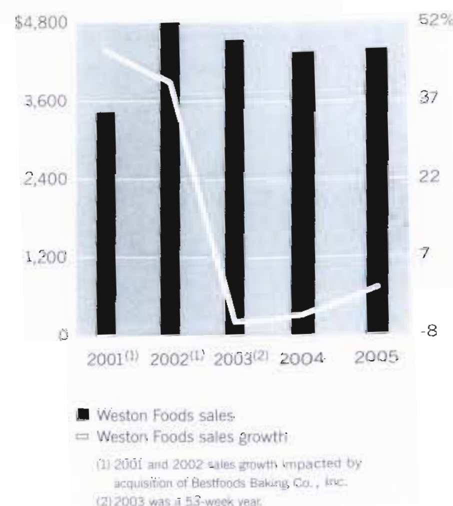
Fresh bakery sales, principally bread, rolls, English muffins and bagels, represented approximately 50% of total Weston Foods sales, up from approximately 48% in 2004. This category contributed positively to overall sales growth in 2005 as a result of a combination of the following:

- Branded volume increases including solid growth in *Thomas'*, *Arnold* and *Dutch Country* in the United States and *Wonder* and *Country Harvest* in Canada.
- Acquisition of Gadoua in 2004 which contributed positively to overall fresh bakery sales growth.
- Introduction of new and expanded product offerings including:
  - *Dutch Country Family Grains* breads;
  - *Thomas'* Mini Bagels and *Thomas' Hearty Grains* English Muffins, supported by a successful media advertising program introduced in 2005;
  - Reformulated *Wonder Fresh* white bread and *Wonder Fresh* 100% whole wheat bread, now made with 100% whole grains, in new foil packaging;
  - *Country Harvest* breads made with 100% whole grains and a source of Omega-3; and
  - Weight Watchers bread and English muffins.
- Although consumption of white flour based products continued to decline, price increases and new private label customers were achieved in this category, contributing positively to overall fresh bakery sales growth.

Fresh-baked sweet goods sales, primarily sold under the *Entenmann's* brand, represented approximately 14% of total Weston Foods sales, down from approximately 15% in 2004. Sales declined slightly over last year as this category continued to experience a challenging sales environment with continued volume declines in full size cake and Danish products. Single-serve and hand-held products such as *Little Bites* and the 2005 newly launched *Enten-minis* continued to provide growth to the overall category.

Frozen bakery sales, principally bread, rolls, bagels, English muffins and sweet goods, represented approximately 14% of total Weston Foods sales, down from approximately 15% in 2004. The frozen bakery category contributed positively to overall sales growth in 2005 with strong growth in sweet goods products offsetting declines in low-carb bread sales. Further improved sales mix and price improvements were realized in 2005.

Weston Foods Sales and Sales Growth
($ millions)



(1) 2001 and 2002 sales growth impacted by acquisition of Bestfoods Baking Co., Inc.
(2) 2003 was a 53-week year.

Biscuit sales, principally cookies, crackers, and ice-cream cones and wafers, represented approximately 10% of total Weston Foods sales, down from approximately 11% in 2004. The biscuit category negatively impacted overall sales growth in 2005 due to lower sales volume. Girl Scout cookie sales declined over 2004, due to a decrease in sales volume. A general weakness in the private label retail cookie business was experienced during 2005 with price increases remaining difficult to achieve.

Dairy sales represented approximately 12% of total Weston Foods sales, up from approximately 11% in 2004. The category contributed positively to overall sales growth in 2005 as a result of volume growth, price increases, and the improvement in sales mix as growth continued in value-added products including the continued success of *Neilson Dairy Oh!* milk enriched with DHA. Continued growth in bottled products was achieved in 2005 and the Ontario bottling facility with aseptic capabilities provides opportunity for future growth in this category.

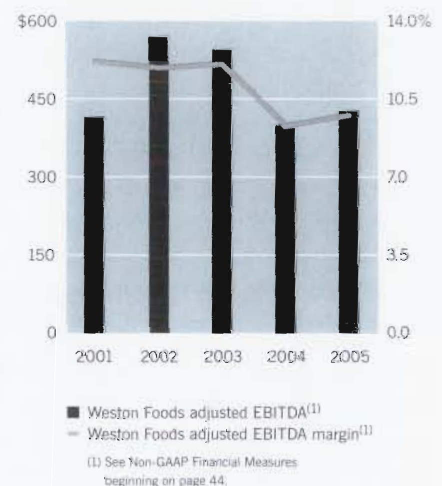
Operating Income Weston Foods operating income increased $103 million, or 74.6%, to $241 million from $138 million in 2004 and was impacted by lower restructuring and other charges and higher net stock-based compensation. Restructuring and other charges in 2005 were $32 million compared to $121 million in 2004 and net stock-based compensation cost was a charge of $29 million in 2005 compared to income of $3 million in 2004. Adjusting for the net impact of restructuring and other charges and stock-based compensation net of the associated equity derivatives, adjusted operating income[1] for 2005 was $302 million, an increase of 18.0% from $256 million in 2004. Adjusted operating margin[1] and adjusted EBITDA margin[1] for 2005 were 6.9% and 9.8%, respectively (2004 – 5.9% and 9.3%). A detailed discussion on the impact of restructuring and other charges is set forth under the "Restructuring and Other Charges" section below. In addition, foreign currency translation negatively impacted 2005 adjusted operating income[1] growth by approximately 5.2%.

Weston Foods 2005 adjusted operating income[1] improved from 2004 and was positively impacted by sales growth, including volume, price and sales mix improvements, and by the benefits being realized from the restructuring and cost reduction activities initiated in 2004 and 2005.

Sales growth during 2005, including volume and sales price improvements, positively impacted 2005 operating income and margin. This was partially offset by the negative impact of inflationary cost pressures related to certain key ingredients and packaging costs, as well as higher energy and employee health related benefit costs, which continue to challenge Weston Foods operating income and margin growth. In addition, during 2005, Weston Foods incurred approximately $4 million of training and other facility start-up related costs. These costs are associated with a biscuit facility being built in Virginia and the investment in a new fresh bakery facility in Florida. These start-up related costs were not included in restructuring and other charges in the consolidated statements of earnings. As anticipated, Weston Foods expects to incur further start-up related costs during 2006 as the ongoing plan to restructure its United States biscuit operations is completed.

Weston Foods Operating Income and Margin, Adjusted Operating Income[1] and Margin[1]
($ millions)

Weston Foods Adjusted EBITDA[1] and Margin[1]
($ millions)



Weston Foods profitability in the United States fresh-baked sweet goods category improved compared to 2004; however, challenges remain as a result of changing consumer eating and shopping preferences and a high fixed cost manufacturing and distribution structure.

White flour based fresh bakery products remain a significant category for Weston Foods. Volume declines experienced in branded white flour based sales in the United States negatively impacted operating income growth; however, these declines were offset by continued good growth in higher-priced branded whole grain and premium products as well as new private label customer business achieved during 2005. Although the new private label business impacts the sales mix negatively in the short term, it provides Weston Foods the opportunity to grow branded sales in certain customers in the longer term and the ability to efficiently leverage its current fixed overhead costs in manufacturing and distribution.

(1) See Non-GAAP Financial Measures beginning on page 44.

In 2004, the product mix shift toward whole grain products added more variety into the Weston Foods sales mix and created certain manufacturing and distribution complexities. Weston Foods continually works on optimizing its long term operating strategy of simplifying and removing complexity from its manufacturing processes. This includes focusing manufacturing capacity for longer production runs and where appropriate, outsourcing shorter-run products to contract manufacturers. The increased use of contract manufacturers and focused manufacturing facilities generally increases distribution complexity and costs. In 2005, initiatives were implemented to address these complexities in manufacturing and distribution and the work continues to progress. As the shift in sales mix continues, Weston Foods has made good progress on improving manufacturing efficiencies and has invested in new flexible bread capacity in order to produce different varieties of bread more efficiently. Examples of new investment include the new fresh bakery completed in Orlando, Florida as well as recently announced plans to commence construction of a new fresh bakery facility in the Midwest United States. These investments better position supply capacity in Weston Foods' highest potential growth markets.

Weston Foods continually evaluates its assets with the objective of ensuring an improving competitive fixed cost structure. Weston Foods continues to evaluate cost reduction and other strategic initiatives, particularly related to the fresh-baked sweet goods category in the United States and reducing administrative costs, to ensure a low cost operating structure and an improving competitive cost position. Certain of these initiatives are in progress or nearing completion while others are still in the planning stages. During 2005, major actions implemented included:

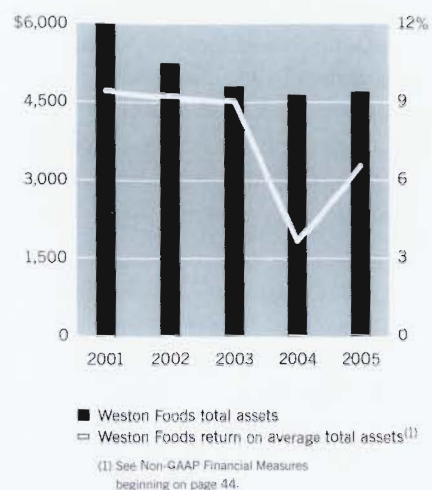
- the plan to restructure the United States biscuit operations, which will result in the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia by the end of 2006 with the majority of the production relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota;
- plans to exit certain bread and roll manufacturing lines in the United States. All production associated with these lines was transferred to third-party producers or other Weston Foods manufacturing facilities and the exit was completed by the end of 2005; and
- plans to consolidate, relocate and restructure certain administrative offices within North America which are anticipated to be completed by the end of 2006.

Restructuring and Other Charges

The following table summarizes the restructuring and other charges by plan for 2005 and 2004:

	Employee Termination Benefits and Site Closing and Other Exit Costs	Fixed Asset Impairment and Accelerated Depreciation	Gain on Sale of Fixed Assets	Intangible Asset Impairment	Total
Costs recognized in 2005:					
United States biscuit operations	$ 28	$ 15	$ (18)		$ 25
Exit of certain bread and roll lines in the United States	1	4			5
Consolidation and restructuring of administrative offices	8				8
Completion of prior year plans	(8)	2			(6)
	$ 29	$ 21	$ (18)		$ 32
Costs recognized in 2004:					
Fresh-baked sweet goods impairment		$ 48		$ 18	$ 66
Exit of waffle business in the United States	$ 1	25			26
Closure of production facilities and distribution centres	11	8			19
Completion of prior year plans	5	5			10
	$ 17	$ 86		$ 18	$ 121

During 2005, Weston Foods approved a plan to restructure its United States biscuit operations. This plan will result in the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia by the end of 2006. Employment at both facilities is being phased down as the majority of the production is relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota. Once completed, this initiative is anticipated to result in lower manufacturing costs and a strengthening of Weston Foods' competitive position within its biscuit operations in the United States. As a result of this restructuring, Weston Foods expects to recognize certain incremental exit and start-up costs of approximately $50 million over 2005 and 2006 including employee related severance, benefit and training costs, production equipment relocations and other facility start-up related costs. In addition, Weston Foods expects to recognize accelerated depreciation on assets currently held-for-use of approximately $25 million over 2005 and 2006. During 2005, Weston Foods recognized $28 million of restructuring charges, $15 million of accelerated depreciation, a gain of $18 million related to the sale and lease-back of the two facilities to be closed associated with this restructuring plan and start-up related costs recognized in operating income of approximately $3 million. Weston Foods received total proceeds of $47 million related to the sale of the two biscuit facilities.



Also during 2005, the following restructuring activities occurred:

- Weston Foods made further progress on its objective of simplifying and removing cost from its existing manufacturing processes and approved plans to exit certain bread and roll manufacturing lines in the United States. All production associated with these lines was transferred to third-party producers or other Weston Foods manufacturing facilities by the end of 2005. As a result of this decision, Weston Foods recognized $4 million of accelerated depreciation and $1 million of restructuring charges related to this restructuring plan;
- Weston Foods approved plans to consolidate, relocate and restructure certain of its administrative offices within North America, which resulted in an $8 million restructuring charge during 2005; and
- Weston Foods recognized restructuring income of $8 million, primarily related to the reversal of accruals no longer required and accelerated depreciation of $2 million related to restructuring plans approved prior to 2005.

During 2004, restructuring charges of $55 million were recognized relating to the following initiatives:

- completion of the Northlake, Illinois and Buffalo, New York bakery facility closures;
- exiting the fresh waffle business in the United States;
- closure of a frozen bakery production facility in St. Louis, Missouri; and
- closure of three production facilities and one distribution centre in Canada.

Also included in restructuring and other charges in 2004 was $66 million of impairment charges relating to the intangible assets and fixed assets employed in the fresh-baked sweet goods category, which relate primarily to products sold under the *Entenmann's* brand name. Further information on Weston Foods restructuring and other charges is provided in note 3 to the consolidated financial statements.

In 2005, Weston Foods also approved plans to start construction of a new bakery in the Midwestern United States. This new facility will produce fresh bakery products, including bread and English muffins, and is expected to be in commercial production by the end of 2006.

Weston Foods management continues to evaluate strategic and other cost reduction initiatives, particularly related to the fresh-baked sweet goods category in the United States and reducing administrative costs, to ensure a low cost operating structure and an improving competitive cost position. Initiatives currently being evaluated include manufacturing asset and distribution network optimization. Individual actions will be initiated and additional charges may be taken as plans are finalized and approved.

In 2006, Weston Foods expects to see improvements in sales and adjusted operating income[1], on a year-over-year basis, as a result of improvements in volume and pricing and as the benefits of restructuring and cost reduction activities continue to be realized. Operating margins are expected to continue to be pressured by underlying cost inflation, particularly with respect to certain materials, energy and people related benefit costs.

(1) See Non-GAAP Financial Measures beginning on page 44.

LOBLAW OPERATING RESULTS

($ millions except where otherwise indicated)	2005	2004	Change
Sales	$ 27,801	$ 26,209	6.1%
Sales excluding impact of VIEs[1]	$ 27,423	$ 26,209	4.6%
Operating income	$ 1,393	$ 1,644	(15.3)%
Operating margin	5.0%	6.3%	
Adjusted operating income[1]	$ 1,592	$ 1,645	(3.2)%
Adjusted operating margin[1]	5.8%	6.3%	
Adjusted EBITDA[1]	$ 2,124	$ 2,118	0.3%
Adjusted EBITDA margin[1]	7.7%	8.1%	
Return on average total assets[1]	11.0%	14.0%	

(1) See Non-GAAP Financial Measures beginning on page 44.

Sales and Sales Growth Excluding Impact of VIEs[1]

($ millions except where otherwise indicated)	2005	2004
Total sales	$ 27,801	$ 26,209
Less: Sales attributable to the consolidation of VIEs pursuant to AcG 15	378	
Sales excluding impact of VIEs[1]	$ 27,423	$ 26,209
Total sales growth	6.1%	
Less: Positive impact on sales growth attributable to the consolidation of VIEs pursuant to AcG 15	1.5%	
Sales growth excluding impact of VIEs[1]	4.6%	

(1) See Non-GAAP Financial Measures beginning on page 44.

Adjusted Operating Income[1]

($ millions)	2005	2004
Operating income	$ 1,393	$ 1,644
Add impact of the following:		
Restructuring and other charges	86	1
Direct costs associated with supply chain disruptions	30	
Goods and Services Tax and provincial sales taxes	40	
Net effect of stock-based compensation and the associated equity derivatives	43	
Adjusted operating income[1]	$ 1,592	$ 1,645

(1) See Non-GAAP Financial Measures beginning on page 44.

Adjusted EBITDA[1]

($ millions)	2005	2004
Adjusted operating income[1]	$ 1,592	$ 1,645
Add (deduct) impact of the following:		
Depreciation and amortization	558	473
VIE depreciation and amortization	(26)	
Adjusted EBITDA[1]	$ 2,124	$ 2,118

(1) See Non-GAAP Financial Measures beginning on page 44.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Loblaw results for 2005 were adversely affected by the short term costs associated with the significant transformational initiatives at Loblaw. The need for this transformative process was driven by Loblaw's assessment of a fast-changing retail environment marked by increased consumer choice, low-cost global retailers, and the addition of an increasingly unsustainable amount of industry square footage.

Based on this assessment, Loblaw developed a comprehensive strategy designed to fortify its competitive position and to maintain its leadership role in meeting the food and everyday household needs of Canadian consumers. In pursuit of this strategy, Loblaw implemented a number of transformative changes to its organization during 2005.

These changes included the restructuring of its supply chain network and the reorganizations involving its merchandising, procurement and operations groups, the establishment of a new national head office and Store Support Centre in Brampton, Ontario, which opened in the third quarter of 2005, and the relocation of general merchandise operations from Calgary, Alberta to the new office. A charge of $86 million was recorded in operating income in 2005 consisting of employee termination benefits resulting from planned involuntary terminations, site closing costs and fixed asset impairment and accelerated depreciation charges associated with these activities.

Loblaw encountered challenges during the execution of planned changes to its systems, supply chain and general merchandise areas including certain supply chain systems conversions which were initiated as part of the creation of a national information technology platform and the start-up of a new third-party owned and operated general merchandise warehouse and distribution centre for eastern Canada. These challenges disrupted the flow of inventory to Loblaw's stores and caused Loblaw to incur additional operating costs. Additional incremental direct costs incurred in the handling, storage and movement of inventory resulting from these disruptions amounted to approximately $30 million for the year, which was recognized in operating income.

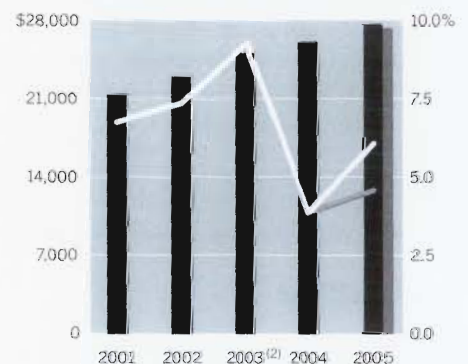
Also in 2005, a charge was recorded relating to an audit and proposed assessment by the CRA relative to GST on certain products sold during prior fiscal periods on which GST was not appropriately charged and remitted. In light of this proposed assessment, Loblaw assessed and estimated the potential liabilities for GST and PST in other areas of its operations. Accordingly, a charge of $40 million was recorded in operating income to reflect the best estimate of such potential tax liabilities of which management is currently aware.

Sales Full year sales in 2005 increased 6.1% to $27.8 billion from $26.2 billion in 2004, including a positive impact of 1.5% or $378 million in sales relating to the consolidation of certain independent franchisees as required by AcG 15. Excluding the impact of the VIEs, 2005 sales increased 4.6% or $1.2 billion over last year.

The following factors further explain the change in sales over the prior year:

- as described earlier, certain initiatives resulted in supply chain disruptions and a drop in service levels and in-stock positions causing an estimated reduction in expected sales growth of approximately 0.5% to 0.7% versus last year;
- retail sales growth in general merchandise and drugstore categories continued to exceed that of food in all regions except in western Canada; general merchandise and drugstore sales in western Canada were most profoundly impacted by the supply chain disruptions;
- *The Real Canadian Superstore* program was positively received in Ontario and has enjoyed significant sales growth;
- strong gas bar sales were partially offset by a decline in tobacco sales;
- same-store sales growth of approximately 0.2%;
- national food price inflation as measured by CPI was approximately 2% for the year, with variances by region; Loblaw's calculation of food price inflation, which considers Loblaw-specific product mix and pricing strategy, was reasonably consistent with that of CPI;
- an increase in net retail square footage of 2.8 million square feet or 6.1% due to the opening of 69 new corporate and franchise stores and the closure of 57 stores including stores which have undergone conversions and major expansions;
- sales per corporate store increased to $32 million in 2005 from $31 million in 2004 reflecting the introduction of larger stores which are expected to become ultimately more productive; and
- sales per average square foot of corporate stores of $579 in 2005 decreased from $592 in 2004 as a result of increases in net retail square footage which outpaced the increase in sales.

Loblaw Sales and Sales Growth
($ millions)

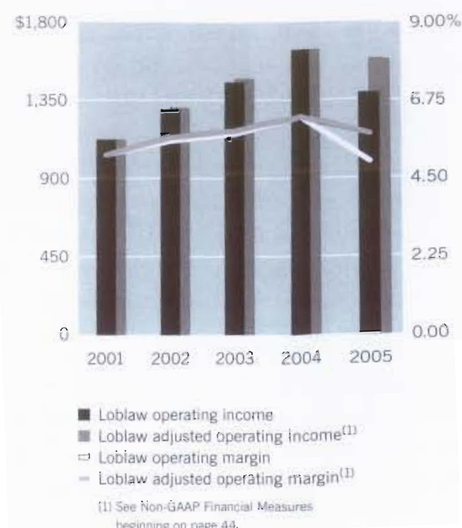


(1) See Non-GAAP Financial Measures beginning on page 44
(2) 2003 was a 53-week year

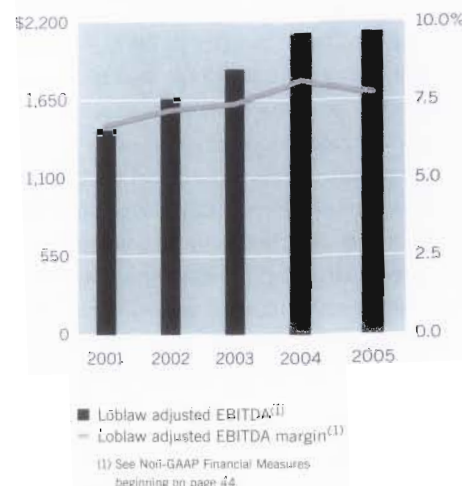
Sales of control label products for 2005 amounted to $5.9 billion compared to $5.6 billion in 2004. Control label penetration, which is measured as control label retail sales as a percentage of total retail sales, was 22.4% for 2005, and approximately equal to that of 2004. Loblaw introduced approximately 2,000 new control label products in 2005, including 1,600 new general merchandise products. Loblaw's control label program, which includes *President's Choice, PC, President's Choice Organics, PC Blue Menu, PC Mini Chefs, no name, Club Pack, GREEN, EXACT, Teddy's Choice* and *Life@Home*, provides additional sales growth potential.

Loblaw expects that the following initiatives, coupled with continued investment in pricing, promotions and advertising where appropriate, will generate continued sales growth over the next few years:

- capital investment in its store network including the planned opening, expansion or renovation of approximately 123 corporate and franchise stores across Canada in 2006;
- additional emphasis on food offerings of great quality and value;
- expansion of general merchandise offerings, including the launch of *Joe Fresh Style* apparel for adults in early 2006, and continued improvement in the execution of its general merchandise and drugstore programs; and
- continued focus on control label products including the development of new products in strategic categories, increased marketing and shortened time to market.



Operating Income Loblaw operating income for 2005 decreased $251 million, or 15.3%, to $1,393 million from $1,644 million in 2004. Operating margin declined to 5.0% in 2005 from 6.3% in 2004. Adjusted EBITDA[1] increased marginally in 2005. Adjusted EBITDA margin[1] was 7.7% in 2005 compared to 8.1% in 2004. In 2005, operating income was adversely impacted by the factors described below.



During the first quarter of 2005, after completion of a detailed assessment of its supply chain network, management of Loblaw approved a comprehensive plan to restructure its supply chain operations nationally. This plan, which is anticipated to be fully implemented by the end of 2007 or early 2008, is expected to reduce future operating costs, provide a smoother flow of products and better service levels to stores and further enable Loblaw to achieve its targeted operating efficiencies. The plan involves the closure of six distribution centres and the relocation of certain activities to new distribution centres. Costs accrued thus far relate primarily to employee termination benefits resulting from planned involuntary terminations. Further costs related to fixed asset impairment and accelerated depreciation and site closure costs as well as additional employee costs will be recognized as appropriate criteria are met. Total costs are expected to approximate $90 million, of which $62 million was recognized in 2005.

In addition to the restructuring of its supply chain network, Loblaw also reorganized its merchandising, procurement and operations groups, established a new national head office and Store Support Centre in Brampton, Ontario, which opened in the third quarter of 2005, and relocated its general merchandise operations from Calgary, Alberta to the new office. Of the total estimated $25 million cost associated with these initiatives, $24 million was recognized in 2005 resulting in total restructuring and other charges of $86 million in 2005.

($ millions)	Cost Recognized in 2005	Total Expected Costs
Supply chain network	$ 62	$ 90
Office move and reorganization of the operation support functions	24	25
Total restructuring and other charges	$ 86	$ 115

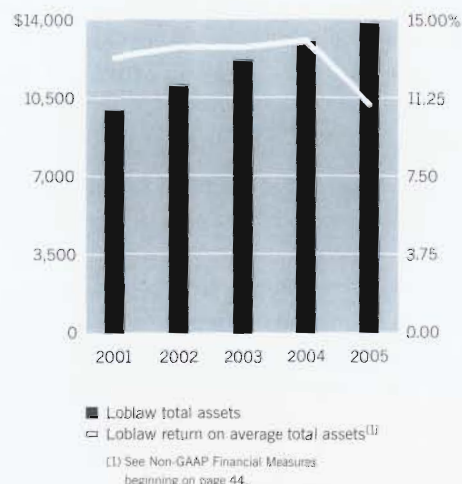
See note 3 to the consolidated financial statements for further information.

(1) See Non-GAAP Financial Measures beginning on page 44.

In 2005, operations were also disrupted by certain systems conversions and the start-up of a new third-party owned and operated general merchandise warehouse and distribution centre serving eastern Canada.

As part of the plan to consolidate Loblaw's supply chain operations nationally and to implement a national information technology platform, a number of warehouse systems conversions in western Canada commenced late in the second quarter of 2005 and were scheduled to be completed by year end 2005. Implementation challenges arising from these initiatives were encountered, particularly during the conversion of the Calgary, Alberta general merchandise distribution centre. Service levels, a measure of distribution centre operating efficiency, fell below normal running rates, resulting in recurring out-of-stock positions at retail. This resulted in lost sales and the associated operating income. Given the challenges encountered in the Calgary general merchandise distribution centre, all other planned system conversions for 2005 were delayed and resumed in early 2006.

Loblaw Total Assets and Return on Average Total Assets[1]
($ millions)



(1) See Non-GAAP Financial Measures beginning on page 44.

In Ontario, the general merchandise warehouse and distribution activities were transitioned to a new facility owned and operated by a third party. Complexities were experienced during the start-up phase and as a result, service levels were below expectations in the second half of the year. This resulted in some out-of-stock positions in Ontario and a delay in the transition of volume into the third-party facility from existing Loblaw distribution centres, which in turn, placed additional pressure on existing Loblaw distribution centres. Productivity declined in certain Loblaw distribution centres during 2005 as a result of the announced restructuring.

Higher direct and indirect operating costs resulting from the supply chain disruptions were significant during the last two quarters of 2005. While it was possible to quantify the direct costs at approximately $30 million for the year, the indirect cost of lost sales, poor service levels and resultant higher operating costs was difficult to quantify.

During the third quarter of 2005, Loblaw also recorded a charge relating to an audit and proposed assessment by the CRA relating to GST on certain products sold between 2000 and 2002 on which GST was not appropriately charged and remitted. In light of this proposed assessment, Loblaw assessed and estimated the potential liabilities for GST and PST in other areas of its operations for various periods up to the end of 2004. Accordingly, a charge of $40 million was recorded in operating income to reflect management's best estimate of such potential tax liabilities of which management is currently aware. Approximately $15 million of this amount was settled during the fourth quarter of 2005. The ultimate remaining amount paid will depend on the outcome of audits performed by, or settlements reached with the various tax authorities and therefore may differ from this estimate. Management will continue to assess the remaining accrual as progress towards resolution with the various tax authorities is made and will adjust the remaining accrual accordingly. An internal review of the procedures and controls surrounding the process of charging and remitting these taxes has been substantially completed and recommendations are in the process of being implemented to avoid the recurrence of similar charges subsequent to the periods currently accounted for.

An incremental charge of $43 million over last year was also recorded in operating income in 2005 for the net effect of stock-based compensation and the associated equity derivatives.

After adjusting for the above-noted items, adjusted operating income[1] in 2005 was $1,592 million compared to $1,645 million in 2004. Adjusted operating margin[1] was 5.8% in 2005 compared to 6.3% in 2004. Inventory shrink in the general merchandise categories was higher than normal throughout 2005 and showed some progress back to more normal levels in the fourth quarter. Improved buying synergies and product mix offset this increase in shrink, resulting in a gross margin in 2005 that was approximately equal to that of 2004. Softening sales from product supply issues and deliberate delays in program activity in 2005 resulted in lost leverage on the fixed components of operating and administrative expenses.

Loblaw expects to see improvement in adjusted operating income[1] on a year-over-year basis during the second half of 2006. The emphasis in the early part of 2006 will be on improving service levels, particularly in the general merchandise and drugstore areas, and ensuring that product is available at the store level to support merchandising programs. Loblaw expects some lowering of prices in certain formats to encourage more customer traffic and build sales.

(1) See Non-GAAP Financial Measures beginning on page 44.

LIQUIDITY AND CAPITAL RESOURCES

MAJOR CASH FLOW COMPONENTS

($ millions)	2005	2004	Change
Cash flows from operating activities of continuing operations	$ 1,812	$ 1,576	$ 236
Cash flows used in investing activities of continuing operations	$ (1,092)	$ (1,335)	$ 243
Cash flows used in financing activities of continuing operations	$ (176)	$ (87)	$ (89)

Cash Flows from Operating Activities of Continuing Operations Cash flows from operating activities of continuing operations increased in 2005 to $1.8 billion from $1.6 billion in 2004. The increase over 2004 was primarily attributable to the improvement in the change in non-cash working capital.

The Company's 2006 cash flows from operating activities of continuing operations are expected to increase at a rate consistent with net earnings growth and are expected to fund a large portion of the Company's anticipated 2006 funding requirements, including its planned capital investment activity of approximately $1.2 billion.

Cash Flows used in Investing Activities of Continuing Operations Cash flows used in investing activities of continuing operations in 2005 were $1.1 billion compared to $1.3 billion in 2004. The decrease of $243 million is primarily due to the shortening term to maturity profile of the Company's short term investment portfolio. The shortening term to maturity profile of the Company's short term investment portfolio resulted in a shift from short term investments to cash and cash equivalents and an increase in cash flows from short term investments of $202 million.

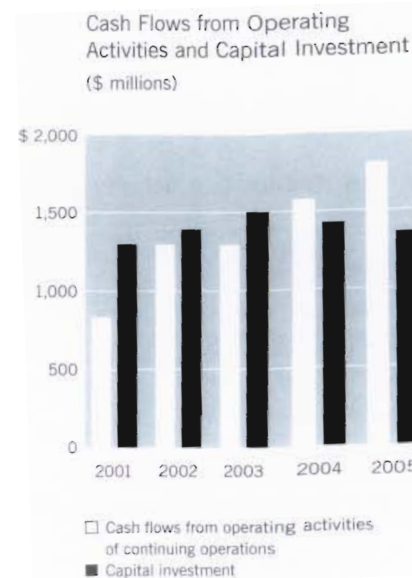
Capital investment amounted to $1.4 billion (2004 – $1.4 billion), reflecting the Company's continuing commitment to maintain and renew its asset base and invest for growth across North America. Weston Foods capital investment was $202 million (2004 – $167 million). The capital was directed toward the construction of three new plants, facility improvements and the upgrade of production lines and distribution assets. Weston Foods capital investment benefited all of its operations to varying degrees and strengthened its processing and distribution capabilities.

Loblaw's capital investment amounted to $1.2 billion (2004 – $1.3 billion). Approximately 82% (2004 – 83%) of Loblaw's capital investment was for new stores, renovations or expansions. The continued capital investment activity benefited all regions in varying degrees and strengthened the existing store base. Some of the new, larger stores replaced older, smaller, less efficient stores that did not offer the broad range of products and services demanded by today's consumer. The remaining 18% (2004 – 17%) of the capital investment was for the warehouse and distribution network, information systems and other infrastructure required to support store growth. Loblaw's 2005 corporate and franchised store capital investment program, which includes the impact of store openings and closures, resulted in an increase in net retail square footage of 6.1% over 2004. During 2005, 69 (2004 – 86) new corporate and franchised stores were opened and 77 (2004 – 82) underwent renovation or minor expansion. The 69 new stores, net of 57 (2004 – 71) store closures, added 2.8 million square feet of retail space (2004 – 3.4 million). The 2005 average corporate store size increased 4.7% to 56,100 square feet (2004 – 53,600) and the average franchised store size increased 4.2% to 27,100 square feet (2004 – 26,000).

The Company also generated $170 million (2004 – $118 million) from fixed asset sales, including proceeds of $47 million from the sale of two Weston Foods biscuit facilities.

The Company expects to continue its capital investment pace in 2006. Capital investment in 2006 is estimated at $1.2 billion (approximately $200 million for Weston Foods and $1.0 billion for Loblaw). Weston Foods' 2006 capital investment will focus on the completion of two new bakery facilities in the United States and the streamlining of production and distribution assets to be more efficient. In 2005, Weston Foods approved plans to start construction of a new bakery in the Midwestern United States. This new facility will produce fresh bakery products, including bread and English muffins, and is expected to be in commercial production by the end of 2006. In addition, as part of the plan to restructure the United States biscuit operations, a new biscuit facility in Virginia will be completed during 2006. Loblaw plans to open, expand or renovate more than 123 corporate and franchised stores throughout Canada in a geographic investment pattern similar to that of 2005 which is expected to result in a net increase of approximately 1.8 million square feet and should generate additional sales growth.

Cash Flows from Operating Activities and Capital Investment
($ millions)



Cash Flows used in Financing Activities of Continuing Operations Cash flows used in financing activities of continuing operations were $176 million in 2005 compared to $87 million in 2004.

During 2005, Weston and Loblaw completed the following financing activities:

- Loblaw issued $300 million of Medium Term Notes ("MTN");
- Weston issued $36 million of Series B Debentures;
- Loblaw repaid $200 million of MTN;
- commercial paper decreased $342 million;
- Weston issued 8.0 million preferred shares, Series III for total proceeds of $194 million;
- Weston issued 8.0 million preferred shares, Series IV for total proceeds of $195 million; and
- Loblaw purchased for cancellation 226,100 of its common shares for $16 million, pursuant to its NCIB.

During 2004, Weston and Loblaw completed the following financing activities:

- issued a total of $400 million of MTN;
- Weston issued $35 million of Series B Debentures;
- Weston repaid $200 million of Series A Debentures;
- Loblaw repaid $100 million of Series 1997 Provigo Inc. Debenture;
- commercial paper increased $144 million;
- Weston purchased for cancellation 587,200 of its common shares for $59 million, pursuant to its NCIB; and
- Loblaw purchased for cancellation 576,100 of its common shares for $35 million, pursuant to its NCIB.

See notes 6, 16 and 18 to the consolidated financial statements for the terms and details of the debt and share capital transactions.

Weston intends to renew its NCIB to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its common shares outstanding.

During 2005, Weston's 2003 Base Shelf Prospectus expired and a new base shelf prospectus under which it may issue preferred shares and MTN in an aggregate amount not to exceed $1 billion was filed. During 2005, Loblaw's 2003 Base Shelf Prospectus expired and a new base shelf prospectus allowing the issue of up to $1 billion of aggregate MTN was filed.

The following tables present the amounts of preferred shares and MTN available to issue under the Weston and Loblaw programs:

Weston Preferred Shares and Medium Term Notes Program

($ millions)	**Base Shelf Prospectus dated April 11, 2005**	Base Shelf Prospectus dated May 16, 2003
Preferred shares and MTN issue limit	**$ 1,000**	$ 750
MTN issued in 2004		200
Preferred shares, Series III issued in 2005	**200**	
Preferred shares, Series IV issued in 2005	**200**	
MTN issue expired		$ 550
MTN capacity available, year end 2005	**$ 600**	

Loblaw Medium Term Notes Program

($ millions)	**Base Shelf Prospectus dated June 20, 2005**	Base Shelf Prospectus dated May 12, 2003
MTN issue limit	**$ 1,000**	$ 1,000
MTN issued in 2003[1]		455
MTN issued in 2004		200
MTN issued in 2005		300
MTN issue expired		$ 45
MTN capacity available, year end 2005	**$ 1,000**	

(1) In 2003, an additional $200 of MTN was issued pursuant to a Base Shelf Prospectus dated May 24, 2001

SOURCES OF LIQUIDITY

The Company can obtain its short term financing through a combination of cash generated from operating activities, cash, cash equivalents, short term investments, bank indebtedness and commercial paper programs. Weston's cash, cash equivalents and short term investments, as well as $268 million in uncommitted credit facilities and $300 million in committed credit facilities extended by several banks, support Weston's $500 million commercial paper program. Loblaw's cash, cash equivalents and short term investments, as well as $845 million in uncommitted operating lines of credit extended by several banks, support its $1.2 billion commercial paper program. Weston's and Loblaw's commercial paper borrowings generally mature less than 90 days from the date of issuance, although the term can be up to 364 days.

Securitization of credit card receivables provides PC Bank with an additional source of funds for the operation of its business. Under PC Bank's securitization program, a portion of the total interest in the credit card receivables is sold to an independent trust. PC Bank securitized $225 million of credit card receivables during 2005 (2004 – $227 million). In 2006, PC Bank finalized the restructuring of its securitization program, which was undertaken in part to accommodate growth in the credit card program. Information on PC Bank's credit card receivables and securitization is provided in notes 11 and 22 to the consolidated financial statements and in the Off-Balance Sheet Arrangements section of this MD&A.

The Company obtains its long term financing primarily through MTN and preferred share programs. The Company plans to refinance the Weston $200 million of 5.25% MTN and the Loblaw $125 million 8.70% Series 1996 Provigo Inc. Debenture as they mature.

In the normal course of business, the Company enters into certain arrangements, such as providing comfort letters to third-party lenders in connection with financing activities of certain franchisees, with no recourse liability to the Company. In addition, the Company establishes standby letters of credit used in connection with certain obligations related to the financing program for Loblaw's franchisees, securitization of PC Bank's credit card receivables, real estate transactions and benefit programs. At year end, the aggregate gross potential liability related to the Company's standby letters of credit was approximately $547 million (2004 – $463 million), against which the Company had $632 million (2004 – $628 million) in credit facilities available to draw on.

The Company has the following sources from which it can fund its 2006 cash requirements: cash flows generated from operating activities, cash, cash equivalents, short term investments, bank indebtedness, commercial paper programs, preferred shares and MTN programs, and additional credit card receivable securitizations from future growth in the PC Bank credit card operations.

In 2006, the Company anticipates no difficulty in obtaining external financing in view of its current credit ratings, its past experience in the capital markets and general market conditions. The Company's credit ratings are outlined in the table below:

Credit Ratings (Canadian Standards)	Dominion Bond Rating Service ("DBRS")	Standard & Poor's ("S&P")
Commercial paper	R-1 (low)	A-1 (low)
Medium term notes	A (low)	A–
Exchangeable debentures	BBB (high)	
Preferred shares	Pfd-2 (low)	P-2
Other notes and debentures	A (low)	A–

The rating organizations listed above base their credit ratings on quantitative and qualitative considerations. In January 2006, S&P changed their outlook on the trend of the Company's long term debt and preferred shares from "stable" to "negative". In addition, DBRS and S&P changed their outlook on the trend of Loblaw's long term debt from "stable" to "negative". These credit ratings are intended to give an indication of the risk that Weston will not fulfill its obligations in a timely manner.

CONTRACTUAL OBLIGATIONS

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 31, 2005:

Summary of Contractual Obligations

	Payments due by year						
($ millions)	2006	2007	2008	2009	2010	Thereafter	Total
Long term debt (including capital lease obligations)	$ 361	$ 24	$ 407	$ 390	$ 314	$ 4,916	$ 6,412
Operating leases[1]	234	215	189	163	140	860	1,801
Contracts for purchase of real property and capital investment projects[2]	299		9				308
Purchase obligations[3]	874	820	761	720	659	1,320	5,154
Total contractual obligations	$ 1,768	$ 1,059	$ 1,366	$ 1,273	$ 1,113	$ 7,096	$ 13,675

(1) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.

(2) These obligations include agreements for the purchase of real property. 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 transaction.

(3) These include material contractual obligations 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. While estimates of anticipated financial commitments were made for the purpose of this disclosure, the amount of actual payments may vary.

The purchase obligations presented in the above table do not include purchase orders issued in the ordinary course of business for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice 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. The Company believes such excluded contracts do not have a material impact on its liquidity.

At year end, the Company had other long term liabilities which included accrued benefit plan liability, future income tax liability, stock-based compensation liability, accrued insurance liability and an equity derivative liability. These long term liabilities have not been included in the table above for the following reasons:

- future payments of accrued benefit plan liability, principally post-retirement benefits, depend on when and if retirees submit claims;
- future payments of income taxes depend on the levels of taxable earnings and income tax rates;
- future payments of the share appreciation value on employee stock options depend on whether employees exercise their stock options, the market prices of Weston and Loblaw common shares on the exercise date and the manner in which they exercise those stock options;
- future payments of restricted share units depend on the market prices of Weston's and Loblaw's common shares;
- future payments of insurance claims can extend over several years and depend on the timing of anticipated settlements and results of litigation; and
- future payments relating to the settlement of the equity forward obligation based on 9.6 million Loblaw common shares which matures in 2031 (see note 20 to the consolidated financial statements) will depend on the market price of Loblaw common shares at the time of maturity; further, the market value of the 9.6 million Loblaw common shares that Weston has used to secure this obligation exceeds the amount owing under the forward contract, and a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity.

OFF-BALANCE SHEET ARRANGEMENTS

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

- standby letters of credit used in connection with certain obligations mainly related to real estate transactions and benefit programs, the aggregate gross potential liability of which is approximately $143 million (2004 – $104 million);
- the securitization of a portion of PC Bank's credit card receivables through independent trusts;
- a standby letter of credit to an independent funding trust which provides loans to Loblaw's franchisees for their purchase of inventory and fixed assets;
- guarantees; and
- financial derivative instruments in the form of interest rate swaps.

Guarantees The Company has entered into various guarantee agreements, including standby letters of credit in relation to the securitization of PC Bank's credit card receivables and in relation to third-party financing made available to the Company's franchisees and obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. For a detailed description of the Company's guarantees, see note 22 to the consolidated financial statements.

Securitization of Credit Card Receivables Loblaw, through its wholly owned subsidiary PC Bank, securitizes credit card receivables through an independent trust administered by a major Canadian bank. In these securitizations, PC Bank sells a portion of its credit card receivables to the trust in exchange for cash. The trust funds these purchases by issuing debt securities in the form of asset-backed commercial paper to third-party investors. The securitizations are accounted for as asset sales only when PC Bank transfers control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. All transactions between the trust and PC Bank have been, and are expected to continue to be, accounted for as sales as contemplated by Canadian GAAP, specifically Accounting Guideline ("AcG") 12, "Transfers of Receivables". As PC Bank does not control or exercise any measure of influence over the trust, the financial results of the trust have not been included in the Company's consolidated financial statements.

When Loblaw sells credit card receivables to the trust, it no longer has access to the receivables but continues to maintain credit card customer account relationships and servicing obligations. Loblaw does not receive a servicing fee from the trust for its servicing obligations. When a sale occurs, PC Bank retains a subordinated interest consisting of rights to future cash flows after obligations to the investors in the trust have been met, which is considered to be a retained interest. The trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported through a standby letter of credit provided by a major Canadian bank for 9% (2004 – 15%) of the securitized amount. This standby letter of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. The carrying value of the retained interests is periodically reviewed and when a decline in value is identified that is other than temporary, the carrying value is written down to fair value.

As at year end 2005, the total amount of securitized credit card receivables outstanding which PC Bank continues to service was $1 billion (2004 – $785 million) and the associated retained interests amounted to $5 million (2004 – $12 million). The standby letter of credit supporting these securitized receivables amounted to approximately $91 million (2004 – $118 million). During 2005, PC Bank received income of $106 million (2004 – $83 million) in securitization revenue from the independent trust relating to the securitized credit card receivables. In the absence of securitization, Loblaw would be required to raise alternative financing by issuing debt or equity instruments. Further disclosure regarding this arrangement is provided in notes 11 and 22 to the consolidated financial statements.

In October 2005, Eagle Credit Card Trust ("Eagle"), an independent trust, was established for the purpose of issuing notes backed by credit card receivables originated and serviced by PC Bank. Subsequent to year end, Eagle issued $500 million, five year notes at a weighted average rate of 4.5%, due 2011, to finance the purchase of credit card receivables, previously securitized by PC Bank, from an independent trust. PC Bank will continue to service the credit card receivables on behalf of Eagle, but will not receive any fee for its servicing obligations and has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. In accordance with Canadian GAAP, the financial statements of Eagle will not be consolidated with those of the Company.

Independent Funding Trust Franchisees of Loblaw may obtain financing through a structure involving independent trusts, that was created to provide loans to the franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixturing and equipment. These trusts are administered by a major Canadian bank. The independent funding trust within the structure finances its activities through the issuance of short term asset-backed notes to third-party investors. The total amount of loans issued to Loblaw's franchisees outstanding as at year end 2005 was $420 million (2004 – $394 million) including $126 million of loans payable of VIEs consolidated by the Company in 2005. Based on a formula, Loblaw has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trust for approximately 10% of the principal amount of the loans outstanding at any point in time, or $42 million (2004 – $42 million) as of year end 2005. This credit enhancement allows the independent funding trust to provide favourable financing terms to Loblaw's franchisees. In the event that a franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust may assign the loan to Loblaw and draw upon this standby letter of credit. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. No amount has ever been drawn on the standby letter of credit. Loblaw is confident it would be able to fully recover from the franchisee any amounts it had reimbursed to the issuing bank. Neither the independent funding trust nor Loblaw can voluntarily terminate the agreement prior to December 2009, and only upon six months' prior notice following that date. Automatic termination of the agreement can only occur if specific, pre-determined events occur and are not remedied within the time periods required. If the arrangement is terminated, the franchisees would be required to replace the loans provided by the independent funding trust with alternative financing. The Company is under no contractual obligation to provide funding to franchisees under such circumstances. In accordance with Canadian GAAP, the financial statements of the independent funding trust are not consolidated with those of the Company.

Derivative Instruments The Company uses off-balance sheet financial derivative instruments to manage its exposure to changes in interest rates. For a detailed description of the Company's off-balance sheet derivative instruments and the related accounting policies, see notes 1 and 20 to the consolidated financial statements.

During 2005, Weston terminated its interest rate swaps with a notional value of $200 million which were designated as a fair value hedge of the $200 million of 5.05% MTN due 2014. The gain realized on the termination of these swaps of $5 million, will be deferred over the remaining term of the initial hedge and recognized in interest expense and other financing charges.

QUARTERLY RESULTS OF OPERATIONS

The 52-week reporting cycle followed by the Company is divided into equal 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 consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

QUARTERLY FINANCIAL INFORMATION[1] (UNAUDITED)

($ millions except where otherwise indicated)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	**2005**	**$ 6,972**	**$ 7,273**	**$ 9,737**	**$ 7,381**	**$ 31,363**
	2004	$ 6,551	$ 6,915	$ 9,260	$ 7,072	$ 29,798
Net earnings from continuing operations	**2005**	**$ 101**	**$ 179**	**$ 196**	**$ 240**	**$ 716**
	2004	$ 125	$ 142	$ 185	$ 154	$ 606
Net earnings (loss)	**2005**	**$ 100**	**$ 153**	**$ 196**	**$ 249**	**$ 698**
	2004	$ 121	$ 140	$ 168	$ (1)	$ 428
Net earnings per common share from continuing operations ($)						
Basic	**2005**	**$ .73**	**$ 1.33**	**$ 1.41**	**$ 1.78**	**$ 5.25**
	2004	$ .91	$ 1.06	$ 1.37	$ 1.15	$ 4.49
Diluted	**2005**	**$ .73**	**$ 1.33**	**$ 1.41**	**$ 1.78**	**$ 5.25**
	2004	$ .91	$ 1.06	$ 1.37	$ 1.14	$ 4.48
Net earnings (loss) per common share ($)						
Basic	**2005**	**$ .72**	**$ 1.13**	**$ 1.41**	**$ 1.85**	**$ 5.11**
	2004	$ .88	$ 1.04	$ 1.24	$ (.05)	$ 3.11
Diluted	**2005**	**$ .72**	**$ 1.13**	**$ 1.41**	**$ 1.85**	**$ 5.11**
	2004	$ .88	$ 1.04	$ 1.24	$ (.06)	$ 3.10

(1) During 2005, the Company implemented AcG 15 retroactively without restatement as described in the "Accounting Standards Implemented in 2005" section below. The implementation of EIC 144 in the third quarter of 2004 on a retroactive basis with restatement did not result in a material change in the quarterly net earnings.

Results by Quarter 2005 quarterly sales growth was impacted by various factors including Loblaw sales growth as well as sales from the consolidation of certain Loblaw independent franchisees and the impact of Weston Foods foreign currency translation. Adjusting for the quarterly impacts of foreign currency translation, Weston Foods 2005 quarterly sales were impacted positively by volume increases as a result of the introduction of new products and a sales mix shift to higher-priced premium products throughout the year as well as sales price increases. During 2005, incremental sales as a result of the acquisition of Gadoua in the third quarter of 2004 positively impacted Weston Foods sales growth. Loblaw 2005 sales included sales of VIEs consolidated by Loblaw and accounted for quarterly sales growth of between 1.2% and 1.7% when compared to their respective quarters in 2004. Loblaw sales growth during the last two quarters of 2005 continued to be negatively impacted by supply chain disruptions which started earlier in the year. Net retail square footage increased by 2.8 million square feet in 2005 and was somewhat weighted over the last two quarters. Same-store sales growth declined during the year from 2.4% in the first quarter to a decline of approximately 0.7% in the fourth quarter. Overall national food price inflation, as measured by CPI, during 2005 was approximately 2%, trending downwards in the last quarter of the year. Holidays such as Easter, Thanksgiving and Christmas impact the Company's sales volumes and have fallen within the same quarters year over year except for Easter, which was in the first quarter in 2005 compared to the second quarter in 2004. In addition, Weston Foods is impacted by the timing of seasonal sales items such as pies, buns, rolls, Girl Scout cookies and ice cream cones and wafers. The sales timing of these seasonal items generally occurs in the same quarters year over year.

2005 quarterly operating income was positively impacted by higher operating margins at Weston Foods due to sales growth, including volume, price and sales mix improvements, and by the benefits realized from the restructuring and other cost reduction activities initiated in 2004 and 2005. In addition, Weston Foods quarterly operating income was impacted by restructuring and other charges incurred in 2005 and 2004. Loblaw's quarterly operating income reflected the impact of restructuring and other charges resulting from the ongoing transformative changes. In addition, quarter-to-quarter variability in consolidated operating income was also caused by the following:

- fluctuations in stock-based compensation net of the impact of the associated equity derivatives as a result of changes in the market price of Weston's and Loblaw's common shares;
- $30 million of direct costs in 2005 related to the handling, storage and movement of inventory from Loblaw's supply chain disruptions, of which $20 million was recorded in the third quarter and an additional $10 million was incurred in the fourth quarter;
- $40 million in GST and PST related charges recorded by Loblaw in the third quarter of 2005; and
- higher than normal inventory shrink in Loblaw's general merchandise categories throughout 2005 with some progress back to more normal levels in the fourth quarter.

Interest expense and other financing charges incurred on a quarterly basis in 2005 as compared to the prior year were generally impacted by decreases in average borrowing levels outstanding and higher short term interest income, offset by the lower positive impact of interest on financial derivative instruments as a result of the maturity of interest rate swaps during the year and an increase in United States and Canadian short term interest rates. In addition interest expense and other financing charges included non-cash income or a non-cash charge relating to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares which fluctuates as the market price of Loblaw common shares changes.

The change in the quarterly effective income tax rate for 2005 over 2004 was primarily due to the change in the proportion of taxable income earned in each tax jurisdiction in which the Company operated, including the jurisdiction in which the income tax impact of stock-based compensation and the associated equity derivatives occurred. In addition, the income tax expense for the first quarter of 2004 included a reversal of $14 million due to Loblaw's successful resolution of certain income tax matters from a previous year.

Net earnings were impacted by the items described above as well as the negative impact of discontinued operations, which was lower this year as compared to last year.

FOURTH QUARTER RESULTS

The following is a summary of selected information for the fourth quarter of 2005 extracted from the Company's preliminary unaudited consolidated financial statements. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

($ millions except where otherwise indicated)	2005	2004
Sales	$ 7,381	$ 7,072
Sales excluding impact of VIEs[(1)]	$ 7,294	$ 7,072
Adjusted EBITDA[(1)]	$ 669	$ 733
Operating income	$ 440	$ 524
Adjusted operating income[(1)]	$ 509	$ 584
Interest expense and other financing charges	$ (47)	$ 164
Net earnings from continuing operations	$ 240	$ 154
Net earnings (loss)	$ 249	$ (1)
Basic net earnings per common share from continuing operations ($)	$ 1.78	$ 1.15
Adjusted basic net earnings per common share from continuing operations[(1)] ($)	$ 1.55	$ 1.81

(1) See Non-GAAP Financial Measures beginning on page 44.

Sales and Sales Growth Excluding Impact of VIEs[(1)]

($ millions except where otherwise indicated)	2005	2004
Total sales	$ 7,381	$ 7,072
Less: Sales attributable to the consolidation of VIEs pursuant to AcG 15	87	
Sales excluding impact of VIEs[(1)]	$ 7,294	$ 7,072
Total sales growth	4.4%	
Less: Positive impact on sales growth attributable to the consolidation of VIEs pursuant to AcG 15	1.3%	
Sales growth excluding impact of VIEs[(1)]	3.1%	

(1) See Non-GAAP Financial Measures beginning on page 44.

Sales Sales for the fourth quarter of 2005 increased 4.4% to $7.4 billion, with a positive impact of approximately 1.3% from the consolidation of certain Loblaw independent franchisees as required by AcG15.

Operating Income Operating income of $440 million for the fourth quarter of 2005 declined 16.0% compared to $524 million in 2004. Fourth quarter operating income included a $7 million (2004 – $77 million) charge for restructuring and other charges, a $10 million charge related to Loblaw's estimated impact of direct costs associated with supply chain disruptions, a $48 million (2004 – income of $17 million) charge related to net stock-based compensation net of the impact of the associated equity derivatives and a negative $4 million VIE impact. Adjusting for the net negative impact of these items, consolidated adjusted operating income[(1)] for the fourth quarter of 2005 was $509 million compared to $584 million in 2004, a decline of 12.8%. Consolidated adjusted operating margin[(1)] for the fourth quarter of 2005 was 7.0% compared to 8.3% in 2004 and was adversely affected by the short term costs associated with the significant transformational initiatives at Loblaw.

Interest Expense and Other Financing Charges Interest expense and other financing charges for the fourth quarter of 2005 decreased $211 million resulting in interest income of $47 million from a charge of $164 million in 2004, primarily as a result of non-cash income of $122 million (2004 – non-cash charge of $83 million), reflecting the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares.

Income Taxes The effective income tax rate increased to 34.9% from 21.4% in the fourth quarter of 2004, primarily due to the change in the proportion of taxable income earned across the different tax jurisdictions in which the Company operated, including the jurisdictions in which the income tax impact of stock-based compensation and the associated equity derivatives occurred.

Net Earnings from Continuing Operations Net earnings from continuing operations for the fourth quarter of 2005 increased $86 million, or 55.8%, to $240 million from $154 million in 2004. Basic net earnings per common share from continuing operations for the fourth quarter of 2005 increased $0.63, or 54.8% to $1.78 from $1.15 in 2004. Basic net earnings per common share from continuing operations included the net positive impact of $0.23 per common share for the fourth quarter as a result of the following factors:

- a $0.02 per common share charge related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a $0.03 per common share charge related to Loblaw's estimated impact of direct costs associated with supply chain disruptions;
- a $0.31 per common share charge for the net effect of stock-based compensation and the associated equity derivatives;
- $0.63 per common share non-cash income related to the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares which is offset on an economic basis;
- a $0.02 per common share charge related to the adjustment to future income tax balances due to the changes in statutory income tax rates in certain Canadian provinces; and
- a $0.02 per common share charge related to the consolidation of VIEs by Loblaw.

After adjusting for the above noted items, Weston's 2005 adjusted basic net earnings per common share from continuing operations[(1)] was $1.55 for the fourth quarter. These results compare to 2004 adjusted basic net earnings per common share from continuing operations[(1)] of $1.81, which were adjusted for the net negative impact of restructuring and other charges, stock-based compensation and the associated equity derivatives and the accounting for Weston's 2001 forward sale agreement for 9.6 million Loblaw common shares. Adjusted basic net earnings per common share from continuing operations[(1)] for the fourth quarter of 2005 decreased 14.4% compared to 2004, adversely affected by the short term financial costs associated with the significant transformational initiatives at Loblaw.

Discontinued Operations The gain from discontinued operations for the fourth quarter of 2005 was $9 million compared to a loss from discontinued operations of $155 million in 2004.

Subsequent to quarter end, the Company reached an agreement to settle claims against it relating to certain alleged misrepresentations and warranties arising from the sale of the Company's forest products business in 1998. The Company did not admit any wrongdoing or liability in connection with the settlement. The net impact of this settlement agreement has been reflected in the 2005 fourth quarter loss from discontinued operations.

Net Earnings Net earnings for the fourth quarter of 2005 increased $250 million to $249 million from a net loss of $1 million in 2004. Basic net earnings per common share for the fourth quarter of 2005 increased $1.90 to $1.85 from a basic net loss per common share of $0.05 in 2004 as a result of the factors discussed above.

(1) See Non-GAAP Financial Measures beginning on page 44.

Reportable Operating Segments

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

WESTON FOODS

($ millions except where otherwise indicated)		2005		2004
Sales	$	980	$	916
Adjusted EBITDA[1]	$	98	$	96
Operating income	$	48	$	(4)
Adjusted operating income[1]	$	70	$	64

(1) See Non-GAAP Financial Measures beginning on page 44.

Sales for the fourth quarter of 2005 increased 7.7% but were offset by the negative impact of foreign currency translation, which reduced Weston Foods sales growth by approximately 0.7% and resulted in reported sales of $1.0 billion, an increase of 7.0% compared to 2004. Sales growth for the fourth quarter of 2005 was also impacted by the following:

- overall volume growth of approximately 2.8%;
- price increases in key product categories combined with changes in sales mix contributed positively to sales growth by approximately 4.9%;
- fresh bakery sales continued to experience strong growth and contributed positively to overall sales growth, driven by both volume growth and price increases. Volume growth was experienced in branded products including solid growth in *Thomas'*, *Arnold* and *Dutch Country* in the United States and *Wonder* and *Country Harvest* in Canada. The introduction of new and expanded products, continued growth in whole grain products and new private label business also contributed to fresh bakery sales growth;
- sales in the fresh-baked sweet goods category, primarily sold under the *Entenmann's* brand, increased as compared to 2004 while this category continued to experience a challenging sales environment. Growth in single serve and hand held products, including the introduction of *Enten-minis* products during the second half of 2005, was offset by a decline in sales of full size cake products;
- frozen bakery sales contributed positively to overall sales growth as a result of improvements in sales mix and price increases;
- dairy sales contributed positively to overall sales growth as a result of volume growth, sales price increases and the improvement in sales mix as growth continued in value-added products; and
- the biscuit category negatively impacted overall sales growth primarily due to lower sales volumes.

Operating income for the fourth quarter of 2005 was $48 million compared to an operating loss of $4 million in 2004. Fourth quarter operating income included a $1 million (2004 – $77 million) charge for restructuring and other charges and a $21 million (2004 – income of $9 million) charge related to net stock-based compensation net of the impact of the associated equity derivatives. Adjusting for the net negative impact of restructuring and other charges and stock-based compensation net of the associated equity derivatives, adjusted operating income[1] for the fourth quarter of 2005 was $70 million, an increase of 9.4% compared to $64 million in 2004. Adjusted operating margin[1] and adjusted EBITDA margin[1] for the fourth quarter of 2005 were 7.1% and 10.0%, respectively (2004 – 7.0% and 10.5%). Adjusted operating income[1] for the fourth quarter of 2005 was impacted by the following:

- operating income and margin was positively impacted by sales growth, including volume, price and sales mix improvements, and by the benefits realized from the restructuring and cost reduction activities initiated in 2004 and 2005;
- inflationary cost pressures, related to certain key ingredients and packaging costs, as well as higher energy and employee health related benefit costs, continue to challenge Weston Foods operating income and margin growth; and
- during the fourth quarter of 2005, Weston Foods incurred approximately $4 million of training and other facility start-up related costs primarily associated with the new biscuit facility in Virginia, resulting from the ongoing plan to restructure the United States biscuit operations, and the investment in a new fresh bakery facility in Florida. These start-up related costs were not included in restructuring and other charges in the consolidated statements of earnings. As anticipated, Weston Foods expects to incur further start-up related costs during 2006 as the ongoing plan to restructure its United States biscuit operations is completed.

As previously discussed, Weston Foods approved several restructuring plans in 2005. During the fourth quarter of 2005, Weston Foods recognized $1 million of restructuring and other charges in connection with these restructuring plans.

(1) See Non-GAAP Financial Measures beginning on page 44.

LOBLAW

($ millions except where otherwise indicated)	2005	2004
Sales	$ 6,588	$ 6,329
Sales excluding impact of VIEs[1]	$ 6,501	$ 6,329
Adjusted EBITDA[1]	$ 571	$ 637
Operating income	$ 392	$ 528
Adjusted operating income[1]	$ 439	$ 520

(1) See Non-GAAP Financial Measures beginning on page 44.

Sales and Sales Growth Excluding Impact of VIEs[1]

($ millions except where otherwise indicated)	2005	2004
Total sales	$ 6,588	$ 6,329
Less: Sales attributable to the consolidation of VIEs pursuant to AcG 15	87	
Sales excluding impact of VIEs[1]	$ 6,501	$ 6,329
Total sales growth	4.1%	
Less: Positive impact on sales growth attributable to the consolidation of VIEs pursuant to AcG 15	1.4%	
Sales growth excluding impact of VIEs[1]	2.7%	

(1) See Non-GAAP Financial Measures beginning on page 44.

Loblaw sales for the fourth quarter of 2005 increased 4.1% or $259 million to $6.6 billion from the $6.3 billion reported in the fourth quarter of 2004, including an increase of 1.4% or $87 million related to the consolidation of certain independent franchisees. Sales in the fourth quarter continued to be negatively impacted by the supply chain disruptions which started earlier in 2005. Some improved stability has been realized in the latter part of the quarter but significant improvements are not expected to be felt until mid-2006. *The Real Canadian Superstore* program has been positively received in Ontario and has enjoyed growth in both absolute and same-store sales.

Fourth quarter same-store sales in 2005 declined approximately 0.7% when compared to the same period last year. Expected sales growth was also negatively impacted by approximately 0.9% to 1.2% for the quarter due to supply chain disruptions and a drop in service levels. During the quarter, 17 new corporate and franchised stores were opened and 9 stores were closed, resulting in a net increase of 0.8 million square feet of retail square footage. Loblaw's calculation of food price inflation was reasonably consistent with the national food price inflation as measured by CPI, which was approximately 1% for the quarter.

Operating income for the fourth quarter of 2005 decreased $136 million or 25.8% from the fourth quarter of 2004, to $392 million. Operating margin declined to 6.0% from 8.3% in the comparable period of 2004. Fourth quarter operating income in 2005 included a $6 million charge for restructuring and other charges and incremental direct costs of approximately $10 million related to the supply chain disruptions. A charge of $27 million related to stock-based compensation net of the impact of the associated equity forwards was also recorded in the fourth quarter and compared to $8 million income in 2004. These items, in addition to the negative $4 million VIE impact, accounted for a decline in operating margin of approximately 0.8 of a percentage point for the quarter.

Liquidity and Capital Resources

Cash flows from operating activities of continuing operations Fourth quarter cash flows from operating activities of continuing operations were $902 million in 2005 compared to $1,017 million in the comparable period of 2004.

Cash flows used in investing activities of continuing operations Fourth quarter 2005 cash flows used in investing activities of continuing operations were $494 million in 2005 compared to $410 million in 2004. Capital investment for the fourth quarter amounted to $390 million (2004 – $373 million). New Loblaw retail stores account for the significant portion of this investment.

Cash flows used in financing activities of continuing operations Fourth quarter 2005 cash flows used in financing activities of continuing operations were $395 million in 2005 compared to $480 million in 2004, decreasing mainly due to the repayment of Loblaw's $100 million 6.35% Series 1997 Provigo Inc. Debenture as it matured during the fourth quarter of 2004.

Further discussion and analysis of the fourth quarter results was provided in the Company's 2005 Fourth Quarter News Release which is available online at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES

Based on an evaluation of the Company's disclosure controls and procedures, the Company's President and Chief Financial Officer have concluded that these controls and procedures were effective as of December 31, 2005.

OPERATING RISKS AND RISK MANAGEMENT

In the normal course of its business, the Company's reportable operating segments are exposed to operating risks that have the potential to negatively affect its financial performance. Each operating segment has insurance programs and its own operating and risk management strategies to help minimize these operating risks.

Industry The North American food processing and retail industries are evolving and operate in increasingly competitive markets. Consumers' needs drive changes in the industries, which are impacted by changing demographic and economic trends such as changes in disposable income, increasing ethnic diversity, nutritional awareness and time availability. Over the past several years, consumers have demanded more choice, value and convenience. If the Company is ineffective in responding to these demands, its financial performance could be negatively impacted.

Both operating segments evaluate the markets they operate in and will enter new markets and review acquisitions when opportunities arise, and will also exit a particular market and reallocate assets elsewhere when there is a strategic advantage to doing so. With any acquisition, there is inherent risk related to the Company's ability to integrate the acquired business and to achieve the anticipated operating improvements. Weston Foods' strategy to operate on a North American scale allows it to effectively manage and minimize its exposure to industry risk.

Loblaw pursues a strategy of enhancing profitability on a market-by-market basis by using a multi-format approach. By operating across Canada through corporate stores, franchised stores and associated stores and by servicing independent accounts, Loblaw strategically minimizes and balances its exposure to industry risk.

Competitive Environment The Company reviews and monitors operating plans and results, including market share in its reportable operating segments. When necessary, the segments will modify their operating strategies, including relocating production facilities or stores, reviewing pricing and adjusting product offerings, brand positioning and/or marketing programs to take into account competitive activity. A significant competitive advantage the Company has developed is its brands. Both segments focus on brand development and building upon their core brand equity.

Weston Foods' brands provide it with a strategic advantage over its competitors. Its premium and popular brands provide Weston Foods with strong core brands and product lines that enhance consumer loyalty, trusted as they are for quality, great taste and freshness.

As a result of the difficult sales environment being experienced by United States traditional food retailers, coupled with the continuing cost pressures being experienced by the industry, Weston Foods anticipates that competitive business restructuring will continue in 2006. Although the outcome and the impact, if any, on the Company's consolidated financial results from this anticipated restructuring is uncertain, Weston Foods will closely monitor the United States food retail market and, if required, adjust its strategies and programs as necessary.

Loblaw's control label program represents a significant competitive advantage because it enhances customer loyalty by offering superior value and provides some protection against national brand pricing strategies. Loblaw faces increasing competition from many types of non-traditional competitors, such as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores, all of which continue to increase their offerings of products typically associated with traditional supermarkets. In order to compete effectively and efficiently, Loblaw is developing and operating new departments and services that complement the traditional supermarket layout, as well as enhancing its product and service offerings. Loblaw is also subject to competitive pressures from new entrants into the marketplace and from the potential consolidation of existing competitors. These competitors may have extensive resources, which will allow them to compete effectively with Loblaw in the long term.

In order to remain competitive by having an optimal cost structure, the Company continuously evaluates and implements various cost saving initiatives. The Company may not always achieve the expected cost savings and other benefits of these initiatives. Accordingly, the Company's competitive position and financial results could be negatively impacted.

Increased competition could adversely affect the Company's ability to achieve its objectives. The Company's inability to compete effectively with its current or any future competitors could result in, among other things, lessening of market share and lower pricing in response to competitors' pricing activities. Accordingly, the Company's position and financial performance could be negatively impacted.

Food Safety and Public Health The Company is subject to potential liabilities connected with its business operations, including potential exposures associated with product defects, food safety and product handling. Such liabilities may arise in relation to the manufacturing, preparation, storage, distribution and display of products and, with respect to Loblaw's control label products, in relation to the production, packaging and design of products.

A majority of the Company's sales are generated from food products and the Company could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could negatively affect the Company's financial performance. Procedures are in place to manage such events, should they occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventories immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, the Company has food safety policies and programs, which address safe food handling and preparation standards. The Company endeavours to employ best practices for the storage and distribution of food products and is intensifying the campaign for consumer awareness of safe food handling and consumption.

In the event of a significant public health crisis, such as a flu or other type of pandemic, it is possible that significant numbers of customers may choose to limit their activities outside of their home, including shopping trips, thereby negatively impacting the Company's sales. Furthermore, it may not be possible to adequately staff the Company's businesses during such an event. The Company is in the process of preparing a plan for its approach to such an event.

Labour A significant portion of the Company's workforce is unionized. Renegotiating collective agreements might result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. The Company is willing to accept the short term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term. Significant labour negotiations took place across the Company in 2005 as 79 collective agreements expired and another 80 collective agreements were successfully negotiated which represented a combination of agreements expiring in 2005, those carried over from prior years and those negotiated early. In 2006, 99 collective agreements affecting approximately 43,000 employees will expire, with the single largest agreement covering approximately 14,300 employees. The Company will also continue to negotiate the 41 collective agreements carried over from 2003 to 2005 and anticipates no labour disruption with respect to these negotiations. The Company has good relations with its employees and unions and, although it is possible, does not anticipate any unusual difficulties in renegotiating these agreements.

Several of the Company's competitors operate in a non-union environment. These competitors may benefit from lower labour costs, making it more difficult for the Company to compete.

Commodity Prices Weston Foods operating results are directly impacted by fluctuations in the price of commodities such as wheat, flour, sugar, vegetable oil and cocoa. Increases in the price of these commodities could adversely affect the Company's financial performance. In order to minimize the effect of these fluctuations on current operating results and to lessen the resulting uncertainty of future financial results, the Company hedges a portion of its anticipated commodity purchases. As at year end 2005, Weston Foods had entered into commodity future contracts that mitigate price fluctuations on some commodities for approximately 6 months, on average, into 2006.

Employee Future Benefit Contributions Although the Company's registered funded defined benefit pension plans are currently adequately funded and returns on defined benefit pension plan assets are in line with expectations, there is no assurance that this will continue. An extended period of depressed capital markets and low interest rates could require the Company to make contributions to its registered funded defined benefit pension plans in excess of those currently contemplated, which in turn could have a negative effect on its financial performance.

During 2005, the Company contributed $103 million (2004 – $85 million) to its registered funded defined benefit pension plans. During 2006, the Company expects to contribute approximately $103 million to these plans. In 2006, the Company also expects to make a contribution of $17 million to the funded long term disability benefit plan in addition to contributions to defined contribution pension plans and multi-employer pension plans, as well as benefit payments to the beneficiaries of the unfunded defined benefit pension and other benefit plans.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits in which approximately 40% (2004 – 41%) of employees of the Company and of its franchisees participate. The administration of these plans and the investment of their assets are legally controlled by boards 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. Pension cost for these plans is recognized as contributions are paid. The Financial Services Commission of Ontario has recently issued a report concerning one of these multi-employer pension plans. This report deals with alleged breaches of the Ontario pension and benefits legislation in connection with certain of the investments of the plan under review and its governance practices.

Third-Party Service Providers Certain aspects of the Company's business are significantly affected by third parties. Although appropriate contractual arrangements are put in place with these third parties, the Company has no direct influence over how such third parties are managed. It is possible that negative events affecting these third parties could in turn negatively impact the Company's operations and its financial performance.

A large portion of Loblaw's case-ready meat products are produced by a third party which operates facilities dedicated to Loblaw.

In addition, certain of Weston Foods' products and Loblaw's control label products, which are among the most recognized brands in Canada, are manufactured under contract by third-party vendors, and in order to preserve the brands' equity, these vendors are held to high standards of quality. Loblaw also uses third-party logistic services including those in connection with a dedicated warehouse and distribution centre in Pickering, Ontario and third-party common carriers. Any disruption in these services could interrupt the delivery of merchandise to the stores and therefore could negatively impact sales.

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 monitor credit and fraud for the *President's Choice Financial* MasterCard®. In order to minimize operating risk, PC Bank and Loblaw actively manage and monitor their relationship with all third-party service providers. PC Bank has developed a vendor management policy, approved by its Board of Directors, and provides its Board with regular reports on vendor management and risk assessment. *PC Financial* home and auto insurance products are provided by companies within the Aviva Canada group, the Canadian subsidiary of a major international property and casualty insurance provider.

Real Estate The availability and conditions affecting the acquisition and development of real estate properties may impact Loblaw's ability to execute its planned real estate program on schedule and therefore, its ability to achieve its sales targets. Real estate development plans may be contingent on successful negotiation of labour agreements with respect to same-site expansion or redevelopment. As Loblaw expands its general merchandise offering, on-time execution of the real estate program becomes increasingly important due to significantly longer lead times required for ordering this merchandise. Delays in execution could lead to inventory management issues. 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 allowing it to introduce new departments and services that could be precluded under operating leases. At year end 2005, Loblaw owned 72% (2004 – 70%) of its corporate store square footage.

Seasonality The Company's operations as they relate to food, specifically inventory levels, sales volumes and sales mix, are impacted to some degree by certain holiday periods throughout the year. Both of the Company's reportable operating segments continuously monitor the impact holidays may have on their operations and adjust inventory levels and production and delivery schedules as required. As Loblaw expands the breadth of its general merchandise offering, it may increase the number of seasonal products offered and its operations may therefore be subject to more seasonal fluctuations.

Leadership Development and Employee Retention Effective leadership is essential to sustaining the growth and success of the Company. The Company continues to focus on the development of leaders at all levels and across all regions, by executing tailored leadership development programs that provide the knowledge and skills necessary to drive positive change and ensure effective execution. The degree to which the Company is effective in developing its leaders and retaining key employees could affect its ability to execute its strategies, efficiently run its operations and meet its goals for financial performance.

Loblaw opened a new head office and Store Support Centre in Brampton, Ontario in the third quarter of 2005 combining several administrative and operating offices from across southern Ontario and the general merchandise operations from Calgary, Alberta. In addition, Loblaw's internal reorganizations involving the merchandising, procurement and operations groups took effect. These initiatives may result in further short term employee turnover and disruption as certain employees may assume new roles and responsibilities.

Utility and Fuel Prices The Company is a significant consumer of electricity, other utilities and fuel. Unanticipated cost increases in these items could negatively affect the Company's financial performance.

Insurance The Company limits its exposure to risk through a combination of appropriate levels of self-insurance and the purchase of various insurance coverages, including an integrated insurance program. The Company's insurance program is based on various lines and limits of coverage, which provide the appropriate level of retained and insured risks. Insurance is arranged on a multi-year basis with reliable, financially stable insurance companies as rated by A.M. Best Company, Inc. The Company combines comprehensive risk management programs and the active management of claims handling and litigation processes by using internal professionals and external technical expertise to reduce and manage the risk it retains.

Environmental, Health and Safety The Company has environmental, health and workplace safety programs in place and has established policies and procedures aimed at ensuring compliance with applicable legislative requirements. To this end, the Company employs risk assessments and audits using internal and external resources together with employee awareness programs throughout its operating locations.

The Company endeavours to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound environmental stewardship and ecological considerations. Environmental protection requirements do not and are not expected to have an adverse effect on the Company's financial performance.

The Environmental, Health and Safety Committee of the Board receives regular reporting from management addressing current and potential future issues identifying new legislative concerns and related communication efforts.

Ethical Business Conduct Any failure of the Company to adhere to its policies, the law or ethical business practices could significantly affect its reputation and brands and could therefore, negatively impact the Company's financial performance. The Company has adopted a Code of Business Conduct which employees of the Company are required to acknowledge and agree to comply with on a regular basis. The Company has established an Ethics and Business Conduct Committee which monitors compliance with the Code of Business Conduct and determines how the Company can best ensure it is conducting its business in an ethical manner. 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.

Legal, Taxation and Accounting Changes to any of the laws, rules, regulations or policies related to the Company's business, including the production, processing, preparation, distribution, packaging and labelling of its products could have an adverse impact on its financial and operational performance. In the course of complying with such changes, the Company may incur significant costs. Failure by the Company to fully comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which may have an adverse effect on the Company's financial results. There can be no assurance that the tax laws and regulations in the jurisdictions affecting the Company will not be changed in a manner which could adversely affect the Company. New accounting pronouncements introduced by appropriate authoritative bodies may also impact the Company's financial results.

Holding Company Structure Weston is a holding company. As such, it does not carry on all of its business directly but does so through its subsidiaries. It has no major source of income or assets of its own, other than the interests it has in its subsidiaries, which are all separate legal entities. Weston is therefore financially dependent on dividends and other distributions it receives from its subsidiaries.

FINANCIAL RISKS AND RISK MANAGEMENT

In the normal course of business, the Company is exposed to financial risks that have the potential to negatively affect its financial performance, including financial risks related to changes in interest rates, foreign currency exchange rates and the market prices of Weston and Loblaw common shares. The Company is also exposed to credit and counterparty risks on certain of its financial instruments. These risks and the actions taken to minimize them are discussed below.

Derivative Instruments The Company uses over-the-counter financial derivative instruments, specifically cross currency basis swaps, interest rate swaps, equity forwards and swaps, and commodity futures and options, to minimize the risks and costs associated with its financing activities, stock-based compensation plans and future purchases of commodities. The Company maintains treasury centres that operate under policies and guidelines approved by the Board, covering funding, investing, equity, foreign currency exchange and interest rate management. The Company's policies and guidelines prevent it from using any derivative instrument for trading or speculative purposes. See notes 1 and 20 to the consolidated financial statements for additional information on the Company's derivative instruments.

Foreign Currency Exchange Rate The Company enters into currency derivative agreements to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates. Loblaw's cross currency basis swaps are transactions in which floating interest payments and principal in United States dollars are exchanged against the receipt of floating interest payments and principal in Canadian dollars. These cross currency basis swaps limit Loblaw's exposure to foreign currency exchange rate fluctuations on a portion of its United States dollar denominated assets, principally cash, cash equivalents and short term investments.

Interest Rate The Company enters into interest rate swaps to manage its current and anticipated exposure to fluctuations in interest rates and market liquidity. Interest rate swaps are transactions in which the Company exchanges interest flows with a counterparty on a specified notional amount for a predetermined period based on agreed-upon fixed and floating interest rates. Notional amounts are not exchanged. The Company monitors market conditions and the impact of interest rate fluctuations on its fixed and floating interest rate exposure mix on an ongoing basis.

Common Share Market Price The Company enters into equity derivative agreements to manage its current and anticipated exposure to fluctuations in its stock-based compensation cost as a result of changes in the market prices of Weston and Loblaw common shares. These equity derivative agreements change in value as the market prices of the underlying common shares change, which effectively results in a partial offset to fluctuations in the Company's stock-based compensation cost. The partial offset between the Company's stock-based compensation costs and the equity derivatives exists as long as the market prices of Weston and Loblaw common shares exceed the exercise price of employee stock options. The amount of net stock-based compensation cost recorded in operating income is dependent upon the number of unexercised, vested stock options and restricted share units relative to the number of underlying common shares on the equity derivatives and the fluctuations in the market price of the underlying common shares. As at year end 2005, 1,927,640 Weston stock options and share appreciation rights and 2,254,639 Loblaw stock options had exercise prices which were greater than the respective market price of Weston and Loblaw common shares at year end. The fair value of Weston's equity forward sale agreement based on 9.6 million Loblaw common shares is based on fluctuations in the market price of Loblaw common shares, and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the 9.6 million Loblaw common shares.

Counterparty Over-the-counter financial derivative instruments are subject to counterparty risk. Counterparty risk arises from the possibility that market changes may affect a counterparty's position unfavourably and that the counterparty defaults on its obligations to the Company. The Company has sought to minimize potential counterparty risk and losses by conducting transactions for its derivative agreements with counterparties that have at minimum a long term A credit rating from a recognized credit rating agency and by placing risk adjusted limits on its exposure to any single counterparty for its financial derivative agreements. The Company has internal policies, controls and reporting processes, which require ongoing assessment and corrective action, if necessary, with respect to its derivative transactions. In addition, principal amounts on cross currency basis swaps and equity forwards are each netted by agreement and there is no exposure to loss of the original notional principal amounts on the interest rate swaps and equity forwards.

Credit The Company's exposure to credit risk relates to the Company's cash equivalents and short term investments, Weston Foods' trade accounts receivables and Loblaw's credit card receivables and accounts receivable from franchisees, associates and independent accounts.

Credit risk associated with the Company's cash equivalents and short term investments results from the possibility that a counterparty may default on the repayment of a security. This risk is mitigated by the established policies and guidelines that require issuers of permissible investments to have at minimum a long term A credit rating from a recognized credit rating agency and that specify minimum and maximum exposures to specific issuers.

Weston Foods performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade accounts receivables in order to mitigate any possible credit losses.

Loblaw's exposure to credit risk relates to PC Bank's credit card receivables. PC Bank manages the *President's Choice Financial* MasterCard®. PC Bank grants credit to its customers on *President's Choice Financial* MasterCard® with the intention of increasing the loyalty of those customers and Loblaw profitability. Credit risk results from the potential for loss due to those customers defaulting on their payment obligations. In order to minimize the associated credit risk, PC Bank employs stringent credit scoring techniques, actively monitors the credit card portfolio and reviews techniques and technology that can improve the effectiveness of its collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers. Loblaw also has accounts receivable from its franchisees, associates and independent accounts, mainly as a result of sales to these customers. Loblaw actively monitors the balances on an ongoing basis and collects funds from its franchisees on a frequent basis in accordance with terms specified in the applicable agreements.

RELATED PARTY TRANSACTIONS

Weston's majority shareholder, Wittington Investments, Limited ("Wittington"), and its affiliates are related parties. Weston, in the normal course of business, has routine transactions with these related parties, including the rental of office space at market rates from Wittington. Rental payments amounted to approximately $5 million in 2005 (2004 – $4 million). In 2004, a one time payment of $8 million for a property designated for future development was also made. It is Weston's policy to conduct all transactions and settle balances with related parties on market terms and conditions. For a detailed description of the Company's related party transactions, see note 23 to the consolidated financial statements.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Management continually evaluates the estimates and assumptions it uses. These 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 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.

Valuation of Inventories Certain Loblaw retail store inventories are stated at the lower of cost and estimated net realizable value less normal gross profit margin. Loblaw is required to make significant estimation or judgment 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 shrinkage, 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 a category or department level, is calculated in relation to historical gross margins and is reviewed on a regular basis for reasonableness.

Inventory shrinkage, 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 may 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.

Employee Future Benefits The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans are accrued based on actuarial valuations which are dependent on assumptions determined by management. These assumptions include the discount rate, the expected long term rate of return on plan assets, the expected growth rate of health care costs, the rate of compensation increase, retirement ages and mortality rates. These assumptions are reviewed annually by management and the Company's actuaries.

The discount rate, the expected long term rate of return on plan assets and the expected growth rate in health care costs are the three most significant assumptions.

The discount rates are based on market interest rates, as at the Company's measurement date of September 30 on a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations. The discount rates used to determine the 2005 net cost for defined benefit pension and other benefit plans were 6.2% and 6.1% respectively on a weighted average basis, compared to 6.3% and 6.1% respectively in 2004. Certain defined benefit pension plans and other benefit plans affected by the plan to restructure Weston Foods' United States biscuit operations, the plan to restructure Loblaw's supply chain operations nationally and the plan to exit certain of Weston Foods' United States bread lines were remeasured as at March 1, 2005, March 31, 2005 and August 1, 2005 respectively. For these plans, costs subsequent to these dates were determined using discount rates of 5.75%, 5.75% and 5.50% respectively. The majority of the resulting curtailment gains were offset against net unamortized actuarial losses for those plans. A net curtailment loss of $2 million for defined benefit pension plans, a net curtailment gain of $2 million for other benefit plans and additional defined benefit pension costs were recorded in restructuring and other charges in the consolidated statement of earnings. The discount rates used to determine the net 2006 defined benefit pension and other benefit plans costs decreased and as a result, the Company expects an increase in these costs in 2006.

The expected long term rate of return on plan assets is based on historical returns, on the asset mix and on the active management of defined benefit pension plan assets. The Company's defined benefit pension plan assets had a 10 year annualized return of 9.1% as at the 2005 measurement date. The actual annual returns within this 10 year period varied with market conditions. Consistent with 2005, the Company has assumed an 8.0% expected long term rate of return on plan assets in calculating its defined benefit pension plans cost for 2006.

The expected growth rate in health care costs for 2005 was based on external data and the Company's historical trends. Higher initial growth rates were used in 2006, when compared to 2005.

Since the three key assumptions discussed above are forward-looking and long term in nature, they are subject to uncertainty and actual results may differ. Differences between actual experience and the assumptions and changes in the assumptions may result in changes to the accrued benefit plan asset and liability presented in the consolidated balance sheet and the defined benefit pension and other benefit plans cost recognized in the consolidated statement of earnings.

In accordance with Canadian GAAP, the difference between actual results and assumptions are accumulated in net actuarial gain or loss. The magnitude of any immediate impact to the Company's operating income is mitigated by the fact that the excess net accumulated actuarial gain or loss over 10% of the greater of the accrued benefit plan obligation or the fair value of the plan assets at the beginning of the year is amortized over the expected average remaining service period of the active employees. As at September 30, 2005, the unamortized net actuarial loss was $433 million (2004 – $283 million) for defined benefit pension plans and $179 million (2004 – $119 million) for other benefit plans.

Additional information regarding the Company's pension and other benefit plans, including a sensitivity analysis for changes in key assumptions, is provided in note 15 to the consolidated financial statements and in the Employee Future Benefit Contributions discussion in the Operating Risks and Risk Management section of this MD&A.

Goodwill and Indefinite Life Intangible Assets Goodwill is not amortized and is assessed for impairment at the reporting unit level at least annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. A goodwill impairment loss would be recognized to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value. Fair value of goodwill is estimated in the same manner as goodwill is determined at the date of acquisition in a business acquisition, that is, the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income in the consolidated statement of earnings.

The Company determines the fair value of its reporting units using a discounted cash flow model corroborated by other valuation techniques such as market multiples. The process of determining these fair values requires management to make estimates and assumptions of a long term nature including, but not limited to, projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to the Board. Discount rates are based on an industry weighted average cost of capital. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Intangible assets with indefinite lives, primarily consisting of certain Weston Foods' trademarks and brand names, are assessed for impairment at least annually. Any potential intangible asset impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. If the fair value of the intangible asset exceeds its carrying value, the intangible asset is considered not to be impaired. If the carrying value of the intangible asset exceeds its fair value, impairment is identified as the difference between the fair value and the carrying value and will result in a reduction in the carrying value of the intangible assets on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income in the consolidated statement of earnings.

The Company determines the fair value of its trademarks and brand names by using the "Relief from Royalty Method", a discounted cash flow model. The process of determining the fair values requires management to make assumptions of a long term nature regarding projected future sales, terminal growth rates, royalty rates and discount rates. Projected future sales are consistent with strategic plans presented to Weston's Board and discount rates are based on an industry after-tax cost of equity. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

During the fourth quarter of 2005, the Company performed the annual goodwill and indefinite life intangible assets impairment tests and it was determined that the fair value of each of the reporting units exceeded its respective carrying value and therefore, no impairment of goodwill or indefinite life intangible assets was identified.

Income Taxes Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and future 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 and the timing of reversal of temporary differences and possible audits of tax filings by regulatory authorities. Management believes it has adequately provided for income taxes based on current available information.

On an ongoing basis, future income tax assets are reviewed to determine if a valuation allowance is required and if it is deemed more likely than not that the future income tax assets will not be realized based on taxable income projections, a valuation allowance is recorded. As at December 31, 2005, total valuation allowances amounted to $54 million.

Changes or differences in these estimates or assumptions may result in changes to the current or future 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.

Fixed Assets Fixed assets to be held and used are reviewed for impairment when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposition. An impairment loss is measured as the amount by which the fixed assets carrying value exceeds the fair value. As discussed in notes 3 and 12 to the consolidated financial statements, the Company reviewed certain fixed assets for impairment in the Weston Foods and Loblaw operating segments due to circumstances that indicated that their carrying values may not be recovered. The Company made assumptions about the sum of the undiscounted cash flows of certain fixed assets and determined they were less than their carrying value, resulting in the recognition of an impairment loss. The Company uses its internal plans in estimating future cash flows. These plans reflect the Company's best estimate but may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Goods and Services Tax and Provincial Sales Taxes During the third quarter of 2005, Loblaw recorded a charge relating to an audit and proposed assessment by the CRA relating to GST on certain products sold between 2000 and 2002 on which GST was not appropriately charged and remitted. In light of this proposed assessment, the Company assessed and estimated the potential liabilities for GST and PST in other areas of its operations for various periods up to the end of 2004. Accordingly, a charge of $40 million was recorded in operating income in the third quarter to reflect management's best estimate of such potential tax liabilities of which management is currently aware. Approximately $15 million of this amount was settled during the fourth quarter of 2005. The ultimate remaining amount paid will depend on the outcome of audits performed by, or settlements reached with the various tax authorities and therefore may differ from this estimate. Management will continue to assess the remaining accrual as progress towards resolution with the various tax authorities is made and will adjust the remaining accrual accordingly. Changes in this accrual may result in a charge or credit to operating income in the consolidated statement of earnings.

ACCOUNTING STANDARDS IMPLEMENTED IN 2005

Effective January 1, 2005, the Company implemented the following accounting standards issued by the CICA:

- Accounting Guideline 15, "Consolidation of Variable Interest Entities", issued by the CICA in June 2003 and amended in September 2004, requires the consolidation of certain entities that are subject to control on a basis other than through ownership of a majority of voting interests.

  AcG 15 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs. AcG 15 considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIE's expected losses or that entitle it to receive a majority of the VIE's expected residual returns or both.

  Prior to AcG 15, the Company consolidated all entities that it controlled through ownership of a majority of voting interests. Effective January 1, 2005, the Company implemented AcG 15 retroactively without restatement of prior periods and as a result, the Company consolidates entities in which it has control through ownership of a majority of the voting interests as well as all significant VIEs for which it is the primary beneficiary.

Upon implementation of AcG 15, the Company identified the following significant VIEs:

Independent Franchisees Loblaw enters into various forms of franchise agreements that generally require the independent franchisee to purchase inventory from Loblaw and pay certain fees in exchange for services provided by Loblaw and for the right to use certain trademarks and licences owned by Loblaw. Independent franchisees generally lease the land and building from Loblaw, and when eligible, may obtain financing through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixturing and equipment. These trusts are administered by a major Canadian bank. Under the terms of certain franchise agreements, Loblaw may also lease equipment to independent franchisees. Independent franchisees may also obtain financing through operating lines of credit with traditional financial institutions or through issuing preferred shares or notes payable to Loblaw. Loblaw monitors the financial condition of its independent franchisees and provides for estimated losses or write-downs on its accounts and notes receivable or investments when appropriate. Upon implementation of AcG 15, the Company determined that 121 of Loblaw's independent franchisee stores met the criteria for VIEs that require consolidation by the Company pursuant to AcG 15.

Warehouse and Distribution Agreement Loblaw has entered into a warehousing and distribution agreement with a third party to provide to Loblaw distribution and warehousing services from a dedicated facility. Loblaw has no equity interest in this third party; however, the terms of the agreement with the third party are such that the Company has determined that the third party meets the criteria for a VIE that requires consolidation by the Company. As a result of the fee structure agreed to with this third party, the impact of the consolidation of this warehouse and distribution entity was not material.

Accordingly, the Company has included the results of these independent franchisees and this third-party entity that provides distribution and warehousing services in its consolidated financial statements effective January 1, 2005.

Details of the amounts recorded upon implementation and the effect on the opening consolidated balance sheet as at January 1, 2005 are summarized below and include the impact of both the independent franchisees and the warehouse and distribution entity:

CONDENSED CONSOLIDATED BALANCE SHEET AS AT JANUARY 1, 2005

($ millions)	Condensed consolidated balance sheet as at January 1, 2005 before AcG 15 impact	Impact of the implementation of AcG 15	Condensed consolidated balance sheet as at January 1, 2005 after AcG 15 impact
Cash and cash equivalents	$ 1,008	$ 20	$ 1,028
Short term investments	388		388
Accounts receivable	920	(73)	847
Inventories	1,979	78	2,057
Other current assets	250	4	254
Total current assets	4,545	29	4,574
Fixed assets	8,256	136	8,392
Goodwill and intangible assets	3,456	3	3,459
Other assets	1,512	(51)	1,461
Total assets	$ 17,769	$ 117	$ 17,886
Total current liabilities	$ 4,352	$ 48	$ 4,400
Long term debt	6,004	96	6,100
Other liabilities	967	(8)	959
Minority interest	2,066	(1)	2,065
Total liabilities	13,389	135	13,524
Common share capital	614		614
Retained earnings	4,170	(18)	4,152
Cumulative foreign currency translation adjustment	(404)		(404)
Total liabilities and shareholders' equity	$ 17,769	$ 117	$ 17,886

The impact of AcG 15 on the opening consolidated balance sheet can be further explained as follows:

- An after-tax, one-time charge of $18 million (net of income taxes of $12 million and minority interest of $11 million) was recorded upon implementation and resulted mainly from delaying the recognition of vendor monies to when the related inventories of the independent franchisees are sold to their customers, the excess of the independent franchisees' accumulated losses over the allowance for doubtful accounts previously recorded by the Company and the reversal of initial franchise fees initially recognized upon the sale of franchises to third parties.
- Accounts receivable due from the independent franchisees and the investment in preferred shares of the independent franchisees were eliminated upon consolidation; cash and cash equivalents, inventories and fixed assets financed by long term debt (a portion of which is due within one year) were recorded.
- An increase in fixed assets and total current liabilities in respect of the warehouse and distribution entity.
- Minority interest representing the common stakeholder's equity in the respective VIEs.

As at December 31, 2005, 123 of Loblaw's independent franchise stores met the criteria for a VIE and were consolidated pursuant to AcG 15. The impact from the consolidation of these VIEs on the consolidated balance sheet as at December 31, 2005 was not significantly different than the impact on the opening consolidated balance sheet as outlined above. The impact on the consolidated statement of earnings for the year ended December 31, 2005 was predominantly an increase in sales as quantified in the table "Sales and Sales Growth Excluding Impact of VIEs" included on pages 3 and 19. The impact on basic net earnings per common share from continuing operations for 2005 was a decline of approximately $0.03.

The consolidation of these VIEs by the Company does not result in any change to its tax, legal or credit risks nor does it result in the Company assuming any obligations of these third parties.

Independent Trust Loblaw has also identified that it holds a variable interest, by way of a standby letter of credit, in an independent trust which is used to securitize credit card receivables for PC Bank. In these securitizations, PC Bank sells a portion of its credit card receivables to the independent trust in exchange for cash. Although this independent trust has been identified as a VIE, it was determined that Loblaw is not the primary beneficiary and therefore this VIE is not subject to consolidation by the Company. The Company's maximum exposure to loss as a result of its involvement with this independent trust is disclosed in the Off-Balance Sheet Arrangements section of this MD&A and in notes 11 and 22 to the consolidated financial statements.

- EIC Abstract 150, "Determining Whether an Arrangement Contains a Lease" ("EIC 150"), addresses arrangements comprising a transaction or a series of transactions that do not take the legal form of a lease but convey a right to use a tangible asset in return for a payment or a series of payments. EIC 150 provides guidance for determining whether these types of arrangements contain a lease within the scope of CICA section 3065, "Leases", and should be accounted for accordingly. The assessment should be based on whether the fulfillment of the arrangement is dependent on the use of specific tangible assets and whether the arrangement conveys the right to control the use of the tangible assets. This assessment should be made at inception of the arrangement and only reassessed if certain conditions are met. EIC 150 is effective for arrangements entered into or modified as of the beginning of 2005 and did not have any impact during 2005. The Company will continue to monitor whether EIC 150 is applicable to transactions undertaken by the Company.

- EIC Abstract 154, "Accounting for Pre-Existing Relationships Between the Parties of a Business Combination" ("EIC 154"), issued on May 31, 2005, requires that a business combination between parties that have a pre-existing relationship be evaluated to determine if a settlement of a pre-existing contract has occurred which would require separate accounting from the business combination. The settlement of the pre-existing contract should be measured at the settlement amount as defined within the standard. In addition, EIC 154 requires that certain reacquired rights, including the rights to the acquirer's trade name under a franchise agreement, be recognized as an intangible asset separate from goodwill.

  The Company has determined that acquisitions by the Company of independent franchisees are within the scope of EIC 154. The adoption of EIC 154 by the Company on a prospective basis did not have a material impact on net earnings.

FUTURE ACCOUNTING STANDARDS

The Company closely monitors new accounting standards to assess the impact, if any, on its consolidated financial statements. In 2006, the Company will be reviewing the implications of the following standards and implementing the recommendations as required.

- In 2005, the Accounting Standards Board finalized its strategic plan for financial reporting in Canada whereby Canadian GAAP will converge with International Financial Reporting Standards over a five-year period. After this transitional period, Canadian GAAP will cease to exist as a separate, distinct basis of financial reporting. The Company will continue to monitor the changes resulting from this transition.

- EIC Abstract 156, "Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's products)", issued in September 2005 addresses cash consideration, including a sales incentive, 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 income statement. These recommendations are effective for all interim and annual financial statements for fiscal years beginning on or after January 1, 2006. The Company is currently assessing the impact of these recommendations and will implement them in the first quarter of 2006.
- Section 3855, "Financial Instruments – Recognition and Measurement", Section 3865, "Hedges" and Section 1530 "Comprehensive Income" issued in January 2005:
- Section 3855, "Financial Instruments – Recognition and Measurement" establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments must be classified into a defined category, namely, held-to-maturity investments, held for trading, loans and receivables, available-for-sale financial assets and other liabilities. This classification will determine how each instrument is measured and how gains and losses are recognized. In addition, the recommendations define derivatives to include non-financial derivatives and embedded derivatives which meet certain criteria. All such derivatives must be classified as held for trading and therefore recorded at fair value unless they are designated in a hedging relationship.
- Section 3865, "Hedges", replaces AcG 13, "Hedging Relationships" and the guidance formerly in Section 1650, "Foreign Currency Translation". The recommendations of this section are optional and are only required if the entity is applying hedge accounting. This section establishes standards for the accounting treatment of qualifying hedge relationships and the necessary disclosures.
- Section 1530, "Comprehensive Income", introduces a statement of comprehensive income which will be included in the full set of interim and annual financial statements. Comprehensive income will represent the change in equity during a period from transactions and other events and circumstances from non-owner sources and will include all changes in equity other than those resulting from investments by owners and distributions to owners.

  These standards are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2006. The Company is currently assessing the impact of these recommendations and will implement them in the first quarter of 2007 prospectively.

OUTLOOK

The outlook for 2006 for Weston Foods is for continued growth in sales as a result of continued volume and price improvements. Adjusted operating income[1] growth is expected to continue, with operating margins being pressured by underlying cost inflation, particularly with respect to certain materials, energy and people related benefits costs.

Loblaw continues to expect that the negative impact of its transformative process will be absorbed by the end of the second quarter of 2006. This includes an anticipated decline in adjusted basic net earnings per common share[1] in the first quarter of 2006 compared to the same period in 2005. This decline is expected to be consistent with the relative decline in adjusted basic net earnings per common share[1], experienced in the fourth quarter of 2005. Loblaw expects that adjusted basic net earnings per common share[1] performance will improve during the second half of 2006. Further information on Loblaw's outlook regarding its sales and adjusted basic earnings per common share[1] growth can be found in Loblaw's 2005 Annual Report, which is available at www.sedar.com and at www.loblaw.ca.

Loblaw remains confident that its strategic plan is appropriate given the increased competitive landscape. It believes that the transformation will provide the benefits of being a national organization while operating locally in each community. Loblaw expects these initiatives will better position Loblaw to meet the food and everyday household needs of Canadian consumers, and make Loblaw more aligned, streamlined and efficient so that it can continue to offer customers the best value in the form of lower prices and better service.

The outlook for the consolidated results is consistent with those of the operating segments as discussed above. The consolidated results continue to reflect the transformational changes undertaken by both the Weston Foods and Loblaw operating businesses in order to position them for strong growth in the future.

This outlook should be read in conjunction with the Forward-Looking Statements section of the MD&A on page 1.

NON-GAAP FINANCIAL MEASURES

The Company reports its financial results in accordance with Canadian GAAP. However, the Company has included certain non-GAAP financial measures and ratios, which it believes provide useful information to both management and readers of the Annual Report, including this Financial Report, in measuring the financial performance and financial condition of the Company for the reasons set out below. These measures do not have a standardized meaning prescribed by Canadian GAAP and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with Canadian GAAP.

(1) See Non-GAAP Financial Measures beginning on page 44.

Sales and Sales Growth Excluding the Impact of VIEs These financial measures exclude the impact of the increase in sales from the consolidation by the Company of Loblaw independent franchisees which resulted from the implementation of AcG 15 retroactively without restatement effective January 1, 2005. These sales are excluded because they affect the comparability of the financial results and could potentially distort the analysis of trends. A reconciliation of the financial measures to the Canadian GAAP financial measures is included in the tables *"Sales and Sales Growth Excluding Impact of VIEs"* included on pages 3, 19, 30 and 33 of this MD&A.

Adjusted Operating Income and Margin The following table reconciles adjusted operating income to Canadian GAAP operating income reported in the consolidated statements of earnings for the quarters ended December 31, 2005 and December 31, 2004 and the years ended December 31 as indicated. Items listed in the reconciliation below are excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. In addition, they affect the comparability of the financial results and could potentially distort the analysis of trends. The exclusion of these items does not imply that they are non-recurring. Adjusted operating income and margin are useful to management in assessing the Company's performance and in making decisions regarding the ongoing operation of its business.

CONSOLIDATED	**Quarter ended Dec. 31, 2005**	Quarter ended Dec. 31, 2004	**Year ended Dec. 31, 2005**	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Operating income	**$ 440**	$ 524	**$ 1,634**	$ 1,782	$ 1,832	$ 1,704	$ 1,397
Add (deduct) impact of the following:							
Restructuring and other charges	**7**	77	**118**	122	60		44
Direct costs associated with supply chain disruptions	**10**		**30**				
Goods and Services Tax and provincial sales taxes			**40**				
Net effect of stock-based compensation and the associated equity derivatives	**48**	(17)	**72**	(3)	(11)	32	
Variable interest entities	**4**						
Adjusted operating income	**$ 509**	$ 584	**$ 1,894**	$ 1,901	$ 1,881	$ 1,736	$ 1,441

WESTON FOODS	**Quarter ended Dec. 31, 2005**	Quarter ended Dec. 31, 2004	**Year ended Dec. 31, 2005**	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Operating income	**$ 48**	$ (4)	**$ 241**	$ 138	$ 374	$ 409	$ 269
Add (deduct) impact of the following:							
Restructuring and other charges	**1**	77	**32**	121	35		44
Net effect of stock-based compensation and the associated equity derivatives	**21**	(9)	**29**	(3)	(7)	18	
Adjusted operating income	**$ 70**	$ 64	**$ 302**	$ 256	$ 402	$ 427	$ 313

LOBLAW	**Quarter ended Dec. 31, 2005**	Quarter ended Dec. 31, 2004	**Year ended Dec. 31, 2005**	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Operating income	**$ 392**	$ 528	**$ 1,393**	$ 1,644	$ 1,458	$ 1,295	$ 1,128
Add (deduct) impact of the following:							
Restructuring and other charges	**6**		**86**	1	25		
Direct costs associated with supply chain disruptions	**10**		**30**				
Goods and Services Tax and provincial sales taxes			**40**				
Net effect of stock-based compensation and the associated equity derivatives	**27**	(8)	**43**		(4)	14	
Variable interest entities	**4**						
Adjusted operating income	**$ 439**	$ 520	**$ 1,592**	$ 1,645	$ 1,479	$ 1,309	$ 1,128

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

Adjusted EBITDA and Margin The following table reconciles adjusted EBITDA to adjusted operating income which is reconciled to Canadian GAAP measures reported in the consolidated statements of earnings for the quarters ended December 31, 2005 and December 31, 2004 and the years ended December 31 as indicated. Adjusted EBITDA is useful to management in assessing the Company's performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

CONSOLIDATED	Quarter ended Dec. 31, 2005	Quarter ended Dec. 31, 2004	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Adjusted operating income	$ 509	$ 584	$ 1,894	$ 1,901	$ 1,881	$ 1,736	$ 1,441
Add (deduct) impact of the following:							
Depreciation and amortization	168	149	684	618	537	498	418
VIE depreciation and amortization	(8)		(26)				
Adjusted EBITDA	$ 669	$ 733	$ 2,552	$ 2,519	$ 2,418	$ 2,234	$ 1,859

WESTON FOODS	Quarter ended Dec. 31, 2005	Quarter ended Dec. 31, 2004	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Adjusted operating income	$ 70	$ 64	$ 302	$ 256	$ 402	$ 427	$ 313
Add (deduct) impact of the following:							
Depreciation and amortization	28	32	126	145	144	144	103
Adjusted EBITDA	$ 98	$ 96	$ 428	$ 401	$ 546	$ 571	$ 416

LOBLAW	Quarter ended Dec. 31, 2005	Quarter ended Dec. 31, 2004	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Adjusted operating income	$ 439	$ 520	$ 1,592	$ 1,645	$ 1,479	$ 1,309	$ 1,128
Add (deduct) impact of the following:							
Depreciation and amortization	140	117	558	473	393	354	315
VIE depreciation and amortization	(8)		(26)				
Adjusted EBITDA	$ 571	$ 637	$ 2,124	$ 2,118	$ 1,872	$ 1,663	$ 1,443

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

Adjusted Basic Net Earnings per Common Share from Continuing Operations The following table reconciles adjusted basic net earnings per common share from continuing operations to Canadian GAAP basic net earnings per common share from continuing operations reported in the consolidated statements of earnings for the quarters ended December 31, 2005 and December 31, 2004 and the years ended December 31 as indicated. Items listed in the reconciliation below are excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. In addition, they affect the comparability of the financial results and could potentially distort the analysis of trends. The exclusion of these items does not imply that they are non-recurring. Adjusted basic net earnings per common share from continuing operations is useful to management in assessing the Company's performance and in making decisions regarding the operation of its business.

CONSOLIDATED	Quarter ended Dec. 31, 2005	Quarter ended Dec. 31, 2004	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Basic EPS from continuing operations	**$ 1.78**	$ 1.15	**$ 5.25**	$ 4.49	$ 5.91	$ 5.19	$ 4.58
Add (deduct) impact of the following:							
Restructuring and other charges	**0.02**	0.37	**0.42**	0.58	0.24		0.21
Direct costs associated with supply chain disruptions	**0.03**		**0.09**				
Goods and Services Tax and provincial sales taxes			**0.14**				
Net effect of stock-based compensation and the associated equity derivatives	**0.31**	(0.13)	**0.46**	(0.01)	(0.08)	0.15	
Accounting for Loblaw forward sale agreement	**(0.63)**	0.42	**(0.77)**	0.51			
Changes in statutory income tax rates	**0.02**		**0.02**		0.03		
Resolution of certain income tax matter				(0.07)	(0.26)		
Variable interest entities	**0.02**		**0.03**				
Gain on sale of Loblaw shares							(0.89)
Goodwill							0.27
Adjusted Basic EPS from continuing operations	**$ 1.55**	$ 1.81	**$ 5.64**	$ 5.50	$ 5.84	$ 5.34	$ 4.17

Net Debt The following table reconciles net debt excluding exchangeable debentures to Canadian GAAP measures reported in the consolidated balance sheets as at the years ended as indicated. The Company calculates net debt as the sum of long term debt and short term debt less cash, cash equivalents and short term investments and believes this measure is useful in evaluating the amount of leverage employed. The Company calculates net debt excluding exchangeable debentures as net debt (as calculated above) less exchangeable debentures and believes this measure is also useful in evaluating the amount of leverage employed as the exchangeable debentures can be settled with the Company's investment in Domtar common shares included in other assets.

($ millions)	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2001
Bank indebtedness	**$ 113**	$ 123	$ 108	$ 61	$ 152
Commercial paper	**498**	840	696	715	466
Short term bank loans	**138**	102	67	33	1,367
Long term debt due within one year	**361**	222	307	110	82
Long term debt	**5,913**	6,004	5,829	5,387	4,905
Less: Cash and cash equivalents	**1,540**	1,008	965	1,157	743
Short term investments	**50**	388	545	398	518
Net debt	**5,433**	5,895	5,497	4,751	5,711
Less: Exchangeable debentures	**225**	373	374	374	375
Net debt excluding exchangeable debentures	**$ 5,208**	$ 5,522	$ 5,123	$ 4,377	$ 5,336

Total Assets The following table reconciles total assets used in the return on average total assets measure to Canadian GAAP measures reported in the consolidated balance sheets as at the years ended as indicated. The Company believes the return on average total assets ratio is useful in assessing the performance of operating assets and therefore excludes cash, cash equivalents, short term investments, assets of operations held for sale and the Domtar investment from the total assets used in this ratio.

				As at December 31, 2005
($ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	$ 4,675	$ 13,906	$ 12	$ 18,593
Less:				
Cash and cash equivalents	624	916		1,540
Short term investments	46	4		50
Long term assets of operations held for sale			12	12
Domtar investment	220			220
Total assets	$ 3,785	$ 12,986	$ –	$ 16,771

				As at December 31, 2004
($ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets[(1)]	$ 4,614	$ 13,082	$ 73	$ 17,769
Less:				
Cash and cash equivalents	459	549		1,008
Short term investments	113	275		388
Current assets of operations held for sale			62	62
Long term assets of operations held for sale			11	11
Domtar investment	365			365
Total assets	$ 3,677	$ 12,258	$ –	$ 15,935

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

				As at December 31, 2003
($ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets[(1)]	$ 4,780	$ 12,230	$ 268	$ 17,278
Less:				
Cash and cash equivalents	347	618		965
Short term investments	167	378		545
Current assets of operations held for sale			179	179
Long term assets of operations held for sale			89	89
Domtar investment	367			367
Total assets	$ 3,899	$ 11,234	$ –	$ 15,133

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

As at December 31, 2002

($ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets[1]	$ 5,228	$ 11,104	$ 292	$ 16,624
Less:				
Cash and cash equivalents	334	823		1,157
Short term investments	94	304		398
Current assets of operations held for sale			207	207
Long term assets of operations held for sale			85	85
Domtar investment	367			367
Total assets	$ 4,433	$ 9,977	$ –	$ 14,410

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

As at December 31, 2001

($ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets[1]	$ 5,995	$ 9,972	$ 320	$ 16,287
Less:				
Cash and cash equivalents	168	575		743
Short term investments	92	426		518
Current assets of operations held for sale	934		195	1,129
Long term assets of operations held for sale			125	125
Domtar investment	368			368
Total assets	$ 4,433	$ 8,971	$ –	$ 13,404

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

The following table provides additional financial information.

	As at December 31, 2005	As at December 31, 2004	As at December 31, 2003
Market price per common share ($)	**$ 86.31**	$ 109.71	$ 103.71
Actual common shares outstanding (in millions)	**129.0**	128.9	129.4
Weighted average common shares outstanding (in millions)	**129.0**	128.9	131.9

ADDITIONAL INFORMATION

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

March 10, 2006
Toronto, Canada

FINANCIAL RESULTS

Management's Statement of Responsibility for Financial Reporting 51

Independent Auditors' Report 52

Consolidated Statements of Earnings 53

Consolidated Statements of Retained Earnings 53

Consolidated Balance Sheets 54

Consolidated Cash Flow Statements 55

Notes to the Consolidated Financial Statements 56

- Note 1. Summary of Significant Accounting Policies 56
- Note 2. Variable Interest Entities 60
- Note 3. Restructuring and Other Charges 62
- Note 4. Goods and Services Tax and Provincial Sales Taxes 64
- Note 5. Interest Expense and Other Financing Charges 64
- Note 6. Business Acquisitions 65
- Note 7. Income Taxes 66
- Note 8. Basic and Diluted Net Earnings per Common Share from Continuing Operations 67
- Note 9. Discontinued Operations 67
- Note 10. Cash, Cash Equivalents and Short Term Investments 68
- Note 11. Credit Card Receivables 68
- Note 12. Fixed Assets 70
- Note 13. Goodwill and Intangible Assets 70
- Note 14. Other Assets 71
- Note 15. Employee Future Benefits 71
- Note 16. Long Term Debt 76
- Note 17. Other Liabilities 78
- Note 18. Share Capital 78
- Note 19. Stock-Based Compensation 80
- Note 20. Financial Instruments 82
- Note 21. Cumulative Foreign Currency Translation Adjustment 85
- Note 22. Contingencies, Commitments and Guarantees 85
- Note 23. Related Party Transactions 86
- Note 24. Segment Information 86

Five Year Summary 88

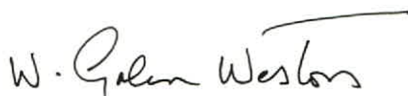
Glossary 91

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

The management of George Weston Limited is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements, Management's Discussion and Analysis and all other information in the Annual Report. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgments and estimates necessary to prepare the consolidated financial statements in accordance with Canadian generally accepted accounting principles. It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

To provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced, management maintains a system of internal controls reinforced by the Company's Code of Business Conduct. Internal auditors, who are employees of the Company, review and evaluate internal controls on management's behalf, coordinating this work with the independent auditors. KPMG LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

The Board of Directors, acting through an Audit Committee comprised solely of directors who are independent of the Company, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. The Audit Committee meets regularly with senior and financial management, internal auditors and the independent auditors to discuss internal controls, auditing activities and financial reporting matters. The independent auditors and internal auditors have unrestricted access to the Audit Committee. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors for inclusion in the Annual Report based on the review and recommendation of the Audit Committee.



W. Galen Weston
Chairman and President

Richard P. Mavrinac
Chief Financial Officer

Toronto, Canada
March 10, 2006

INDEPENDENT AUDITORS' REPORT

To the Shareholders of George Weston Limited:
We have audited the consolidated balance sheets of George Weston Limited as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Toronto, Canada
March 10, 2006

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31 ($ millions except where otherwise indicated)	2005	2004
Sales	$ 31,363	$ 29,798
Operating Expenses		
Cost of sales, selling and administrative expenses	28,887	27,276
Depreciation and amortization	684	618
Restructuring and other charges (note 3)	118	122
Goods and Services Tax and provincial sales taxes (note 4)	40	
	29,729	28,016
Operating Income	1,634	1,782
Interest Expense and Other Financing Charges (note 5)	187	438
Earnings from Continuing Operations Before the Following:	1,447	1,344
Income Taxes (note 7)	443	368
	1,004	976
Minority Interest	288	370
Net Earnings from Continuing Operations	716	606
Discontinued Operations (note 9)	(18)	(178)
Net Earnings	$ 698	$ 428
Net Earnings (Loss) per Common Share – Basic ($)		
Continuing Operations (note 8)	$ 5.25	$ 4.49
Discontinued Operations	$ (0.14)	$ (1.38)
Net Earnings	$ 5.11	$ 3.11
Net Earnings (Loss) per Common Share – Diluted ($)		
Continuing Operations (note 8)	$ 5.25	$ 4.48
Discontinued Operations	$ (0.14)	$ (1.38)
Net Earnings	$ 5.11	$ 3.10

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31 ($ millions except where otherwise indicated)	2005	2004
Retained Earnings, Beginning of Year	$ 4,170	$ 4,013
Impact of implementing new accounting standard (note 2)	(18)	
Retained Earnings, Beginning of Year as Restated	$ 4,152	$ 4,013
Net earnings	698	428
Premium on common shares purchased for cancellation (note 18)		(58)
Dividends declared		
Per common share – $1.44 (2004 – $1.44)	(186)	(186)
Per preferred share – Series I – $1.45 (2004 – $1.45)	(13)	(13)
– Series II – $1.29 (2004 – $1.29)	(14)	(14)
– Series III – $0.92	(7)	
– Series IV – $0.54	(5)	
Retained Earnings, End of Year	$ 4,625	$ 4,170

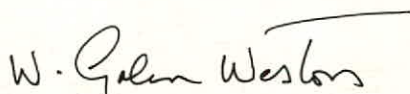
See accompanying notes to the consolidated financial statements.

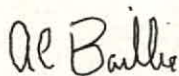
CONSOLIDATED BALANCE SHEETS

As at December 31 ($ millions)	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents (note 10)	$ 1,540	$ 1,008
Short term investments (note 10)	50	388
Accounts receivable (note 11)	933	920
Inventories	2,173	1,979
Income taxes	5	
Future income taxes (note 7)	134	140
Prepaid expenses and other assets	53	48
Current assets of operations held for sale (note 9)		62
Total Current Assets	4,888	4,545
Fixed Assets (note 12)	8,916	8,256
Goodwill and Intangible Assets (note 13)	3,367	3,456
Future Income Taxes (note 7)	89	110
Other Assets (note 14)	1,321	1,391
Long Term Assets of Operations Held for Sale (note 9)	12	11
Total Assets	$ 18,593	$ 17,769
LIABILITIES		
Current Liabilities		
Bank indebtedness	$ 113	$ 123
Commercial paper	498	840
Accounts payable and accrued liabilities	3,263	2,952
Income taxes		91
Short term bank loans (note 16)	138	102
Long term debt due within one year (note 16)	361	222
Current liabilities of operations held for sale (note 9)	10	22
Total Current Liabilities	4,383	4,352
Long Term Debt (note 16)	5,913	6,004
Future Income Taxes (note 7)	343	250
Other Liabilities (note 17)	580	717
Minority Interest	2,255	2,066
Total Liabilities	13,474	13,389
SHAREHOLDERS' EQUITY		
Share Capital (notes 18 & 19)	1,012	614
Retained Earnings	4,625	4,170
Cumulative Foreign Currency Translation Adjustment (note 21)	(518)	(404)
Total Shareholders' Equity	5,119	4,380
Total Liabilities and Shareholders' Equity	$ 18,593	$ 17,769

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board





W. Galen Weston
Director

A. Charles Baillie
Director

CONSOLIDATED CASH FLOW STATEMENTS

For the years ended December 31 ($ millions)		2005	2004
Operating Activities			
Net earnings from continuing operations before minority interest		$ 1,004	$ 976
Depreciation and amortization		684	618
Restructuring and other charges (note 3)		118	122
Goods and Services Tax and provincial sales taxes (note 4)		40	
Future income taxes		152	(37)
Fair value adjustment of Weston's forward sale agreement (note 5)		(150)	101
Change in non-cash working capital		(51)	(201)
Other		15	(3)
Cash Flows from Operating Activities of Continuing Operations		1,812	1,576
Investing Activities			
Fixed asset purchases		(1,358)	(1,425)
Short term investments		338	136
Proceeds on termination of financial derivatives (note 20)		5	
Proceeds from fixed asset sales		170	118
Business acquisition (note 6)			(46)
Credit card receivables, after securitization (note 11)		(84)	(34)
Franchise investments and other receivables		(63)	(25)
Other		(100)	(59)
Cash Flows used in Investing Activities of Continuing Operations		(1,092)	(1,335)
Financing Activities			
Bank indebtedness		(30)	21
Commercial paper		(342)	144
Short term bank loans (note 16)	– Issued	36	35
Long term debt (note 16)	– Issued	333	400
	– Retired	(246)	(305)
Share capital	– Issued (notes 18 & 19)	394	
	– Retired		(59)
Subsidiary share capital	– Issued (note 19)	1	
	– Retired (note 6)	(16)	(35)
Dividends	– To common shareholders	(186)	(178)
	– To preferred shareholders	(34)	(27)
	– To minority shareholders	(88)	(80)
Other		2	(3)
Cash Flows used in Financing Activities of Continuing Operations		(176)	(87)
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents (note 10)		(54)	(77)
Initial impact of Variable Interest Entities (note 2)		20	
Cash Flows from Continuing Operations		510	77
Cash Flows from (used in) Discontinued Operations (note 9)		22	(34)
Change in Cash and Cash Equivalents		532	43
Cash and Cash Equivalents, Beginning of Year		1,008	965
Cash and Cash Equivalents, End of Year		$ 1,540	$ 1,008

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005
($ millions except where otherwise indicated)

1. Summary of Significant Accounting Policies

The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Basis of Consolidation

The consolidated financial statements include the accounts of George Weston Limited ("Weston") and its subsidiaries (collectively referred to as the "Company") with provision for minority interest. Weston's interest in the voting share capital of its subsidiaries is 100% except for Loblaw Companies Limited ("Loblaw"), which is 61.9% (2004 – 61.8%). Effective January 1, 2005, the Company was required, pursuant to Accounting Guideline 15, "Consolidation of Variable Interest Entities", ("AcG 15") issued by the Canadian Institute of Chartered Accountants ("CICA"), to consolidate certain variable interest entities ("VIEs") that are subject to control on a basis other than through ownership of a majority of voting interest. Additional disclosure regarding the implementation of AcG 15 is provided in note 2.

Fiscal Year

The Company's year end is December 31. Sales and related activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year with respect to sales and related activities is usually 52 weeks in duration but does include a 53rd week every five to six years. The year ended 2005 had 52 weeks of sales and related activities, resulting in an effective year end of December 31, 2005 with respect to sales and related activities. The year ended 2004 had 52 weeks of sales and related activities, resulting in an effective year end of January 1, 2005 with respect to sales and related activities. Accordingly, all references to fiscal year end in the Annual Report should be read subject to the foregoing.

Revenue Recognition

Weston Foods recognizes sales upon delivery of their products to customers net of applicable reductions for discounts and allowances. Loblaw sales include revenues, net of returns, from customers through corporate stores operated by Loblaw and independent franchisee stores that are consolidated by Loblaw pursuant to AcG 15. In addition, sales include sales to and service fees from associated stores and independent account customers and franchised stores excluding VIE stores. Loblaw recognizes revenue at the time the sale is made to its customers.

Earnings per Share ("EPS")

Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock options with an exercise price below the average market price are exercised and the assumed proceeds are used to purchase Weston's common shares at the average market price during the year.

Cash, Cash Equivalents and Bank Indebtedness

Cash balances which the Company has the ability and intent to offset are used to reduce reported bank indebtedness. Cash equivalents are highly liquid investments with a maturity of 90 days or less.

Short Term Investments

Short term investments are carried at the lower of cost or quoted market value and consist primarily of United States government securities, commercial paper and bank deposits.

Credit Card Receivables

The Company, through President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw, has credit card receivables that are stated net of an allowance for credit losses. Credit card receivables, if contractually past due, are not classified as impaired but are fully written off the earlier of when payments are contractually 180 days in arrears or when the likelihood of collection is considered remote. Interest income on credit card receivables is recorded on an accrual basis and is recognized in operating income.

Allowance for Credit Losses

PC Bank maintains a general allowance for probable credit losses on aggregate exposures for which losses cannot be determined on an item-by-item basis. The allowance is based upon a statistical analysis of past performance, the level of allowance already in place and management's judgment. The allowance for credit losses is deducted from the credit card receivables balance. The net credit loss experience for the year is recognized in operating income.

Securitization

PC Bank securitizes credit card receivables through the sale of a portion of the total interest in these receivables to an independent trust and does not exercise any control over the trust's management, administration or assets. When PC Bank sells credit card receivables in a securitization transaction, it has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. Although PC Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the trust. Any gain or loss on the sale of these receivables depends, in part, on the previous carrying amount of receivables involved in the securitization, allocated between the receivables sold and the retained interest, based on their relative fair values at the date of securitization. The fair values are determined using a financial model. Any gain or loss on a sale is recognized in operating income at the time of the securitization. The carrying value of retained interests is periodically reviewed and when a decline in value is identified that is other than temporary, the carrying value is written down to fair value.

Vendor Allowances

The Company receives allowances from certain of its vendors whose products it purchases for resale. These allowances are received for a variety of buying and/or merchandising activities, including vendor programs such as volume purchase allowances, purchase discounts, listing fees and exclusivity allowances. Consideration received from a vendor is a reduction in the cost of the vendor's products or services and is recognized as a reduction in the cost of sales and the related inventory when recognized in the income statement and balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor's products, provided that certain conditions are met.

Inventories (principally finished products)

Retail store inventories are stated at the lower of cost and estimated net realizable value less normal gross profit margin. Wholesale, seasonal general merchandise and other inventories are stated at the lower of cost and estimated net realizable value. Cost is determined substantially using the first-in, first-out method.

Fixed Assets

Fixed assets are recorded at cost including capitalized interest. Depreciation commences when the assets are put into use and is recognized on a straight-line basis to depreciate the cost of these assets over their estimated useful lives. Estimated useful lives range from 10 to 40 years for buildings, 10 years for building improvements and from 3 to 16 years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the estimated useful life and the term of the lease, plus renewal options when applicable, to a maximum of 10 years.

Fixed assets are reviewed for impairment when events or circumstances indicate that the carrying value exceeds the sum of the undiscounted future cash flows expected from use and eventual disposal. Fixed assets are also reviewed for impairment annually. For purposes of annually reviewing assets for impairment, asset groups are reviewed at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. Therefore, Weston's manufacturing asset net cash flows are grouped together by major production categories, where cash flows are largely dependent on each other. Loblaw's store net cash flows are grouped together by primary market areas, where cash flows are largely dependent on each other. Primary markets are regional areas where a number of store formats operate within close proximity to one another. If an indicator of impairment exists, such as sustained negative operating cash flows of the respective asset group, then an estimate of undiscounted future cash flows of each such major production category for Weston, or store for Loblaw, is prepared and compared to its carrying value. For purposes of annually reviewing Loblaw's distribution centre assets for impairment, distribution centre net cash flows are grouped with the respective net cash flows of the stores they service. An impairment in the Loblaw store network serviced by the distribution centre would indicate an impairment in the distribution centre assets as well. If Weston's or Loblaw's assets are determined to be impaired, the impairment loss is measured as the excess of the carrying value over fair value. In addition, the carrying value of Weston's and Loblaw's long-lived assets is evaluated whenever events or changes in circumstances indicate that the carrying value of long-lived assets may not be recoverable. These events or changes in circumstances include a commitment to retire or transfer manufacturing assets for Weston and to close a Loblaw store or distribution centre, or to relocate or convert a Loblaw store, where the carrying value of the assets is greater than the expected undiscounted future cash flows.

Assets to be disposed of are classified as held for sale and are no longer depreciated. Assets held for sale are recognized at the lower of carrying value or fair value less costs to sell. A write-down is recognized in operating income or, if the plan of disposal meets the requirements of discontinued operations, the write-down is recognized in discontinued operations (see note 9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deferred Charges

Debt issue costs associated with long term debt are deferred and amortized on a straight-line basis over the term of the debt. Other deferred charges are amortized over the related assets' estimated useful lives, to a maximum of 15 years.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of a business acquired over the fair value of the underlying net assets acquired at the date of acquisition. Other intangible assets are recorded at fair value at the date of acquisition.

Goodwill is not amortized and its carrying value is tested at least annually for impairment. Intangible assets with an indefinite life are not subject to amortization and are tested at least annually for impairment. Intangible assets with a finite life are amortized over their estimated useful lives ranging from 5 to 30 years. Any impairment in the carrying value of goodwill or intangible assets is recognized in operating income.

Foreign Currency Translation

(i) Self-Sustaining Foreign Operations

Assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each year end date. The resulting exchange gains or losses on translation are recognized as part of shareholders' equity in cumulative foreign currency translation adjustment. When there is a reduction in the Company's net investment in self-sustaining foreign operations, the proportionate amount of cumulative foreign currency translation adjustment is recognized in net earnings from continuing operations. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the weighted average foreign currency exchange rate for the year.

(ii) Other including Loblaw Foreign Operations

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each year end date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the weighted average foreign currency exchange rate for the year.

Derivative Instruments

The Company uses derivative agreements in the form of cross currency basis swaps, interest rate swaps, equity swaps and forwards, and commodity futures and options to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates, interest rates, the market prices of Weston and Loblaw common shares and commodity prices. The Company does not enter into derivative agreements for trading or speculative purposes.

The Company formally identifies, designates and documents the relationships between hedging instruments and hedged items including: Weston's 3% Exchangeable Debentures as a hedge of the anticipated disposal of the Domtar Inc. ("Domtar") investment; Weston's interest rate swaps as a fair value hedge of certain Medium Term Notes ("MTN"); Loblaw's cross currency basis swaps and interest rate swaps as cash flow hedges against its exposure to fluctuations in the foreign currency exchange rate and variable interest rates on a portion of its United States dollar denominated assets, principally cash equivalents and short term investments held by Loblaw; Loblaw's interest rate swaps as a cash flow hedge of the variable interest rate exposure on commercial paper; and commodity futures as a cash flow hedge of anticipated future commodity purchases. Effectiveness tests are performed to evaluate hedge effectiveness at inception and on an ongoing basis, both retrospectively and prospectively.

Realized and unrealized foreign currency exchange rate adjustments on Loblaw's cross currency basis swaps are offset by realized and unrealized foreign currency exchange rate adjustments on a portion of its United States dollar denominated assets and are recognized in operating income. The cumulative unrealized foreign currency exchange rate receivable or payable is recorded in other assets or other liabilities, respectively. The exchange of interest payments on Loblaw's cross currency basis swaps and Weston's and Loblaw's interest rate swaps is recognized on an accrual basis in interest expense and other financing charges. Unrealized gains or losses on the interest rate swaps designated within an effective hedging relationship are not recognized. On termination of a hedging relationship, realized and unrealized gains and losses on interest rate swaps are deferred over the remaining term of the initial hedge and recognized in interest expense and other financing charges.

Financial derivative instruments not designated within an effective hedging relationship are measured at fair value with changes in fair value recorded in net earnings from continuing operations.

Effective as of the third quarter of 2004, hedge accounting is no longer permissible for Weston's forward sale agreement for 9.6 million Loblaw common shares (the "underlying Loblaw shares") as a result of the March 2004 amendment to EIC Abstract 56, "Exchangeable Debentures" ("EIC 56"). EIC 56 was amended to conform with the provisions of Accounting Guideline 13, "Hedging Relationships"

("AcG 13"), which deal with items ineligible for hedge accounting, by rescinding, effective the first fiscal period commencing after July 1, 2004, the ability to use hedge accounting if an entity's investment in the underlying shares is consolidated or is accounted for by the equity method. As a result of adopting this amendment to EIC 56, Weston is required to recognize a non-cash charge or income, which is included in consolidated interest expense and other financing charges, representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares from the beginning of the third quarter of 2004. The fair value adjustment is based on fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the 9.6 million Loblaw common shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the consolidated balance sheet in other assets and other liabilities. According to the transitional provisions, the non-cash fair value adjustment, as of the effective date of the amendment to EIC 56, of $125 will remain deferred in other assets on the consolidated balance sheet, and will be recognized in net earnings from continuing operations at maturity or upon termination of the forward sale agreement.

Equity swaps and forwards are used to manage exposure to fluctuations in the market prices of Weston and Loblaw common shares, which impacts the stock-based compensation cost recognized. The partial offset between the Company's stock-based compensation costs and the equity derivatives is effective as long as the market prices of Weston and Loblaw common shares exceed the exercise price of the related employee stock options. Market price adjustments on these equity swaps and forwards are recognized in operating income as gains or losses and the cumulative unrealized gains or losses are recorded in other assets or other liabilities, respectively. Interest on equity swaps and forwards is recognized on an accrual basis in interest expense and other financing charges.

During 2005, an electricity forward contract expired, which had been designated as a cash flow hedge of price volatility of the Company's electricity costs in Ontario, Canada. Prior to its expiry, gains and losses on this electricity forward contract were recognized in operating income as actual electricity costs were recognized.

Unrealized and realized gains and losses on commodity futures which are designated as a cash flow hedge of future anticipated commodity purchases are deferred in current assets or liabilities and are recognized in cost of sales when the inventory produced from the related commodity is sold. Market price adjustments on commodity futures and options, which are not designated as a cash flow hedge of future anticipated commodity purchases, are recognized in operating income.

Income Taxes

The asset and liability method of accounting is used for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income tax expense when a rate change is enacted or substantively enacted. Future income tax assets are evaluated and a valuation allowance, if required, is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Employee Future Benefits

The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans, which include post-retirement, post-employment and long term disability benefits, are accrued based on actuarial valuations. The actuarial valuations are determined using the projected benefit method prorated on service and management's best estimate of the expected long term rate of return on plan assets, rate of compensation increase, retirement ages and expected growth rate of health care costs. Actuarial valuations are performed using a September 30 measurement date for accounting purposes. Market values used to value benefit plan assets are as at the measurement date. The accrued benefit plan obligation is measured using market interest rates as at the measurement date, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligation.

The cost of plan amendments and the excess unamortized net actuarial gain or loss over 10% of the greater of the accrued benefit plan obligation or the fair value of the benefit plan assets at the beginning of the year are amortized over the expected average remaining service period of the active employees. The expected average remaining service period of the active employees covered by the defined benefit pension plans ranges from 6 to 17 years with a weighted average of 12 years. The expected average remaining service period of the employees covered by the other benefit plans ranges from 4 to 15 years with a weighted average of 12 years.

The cost of pension benefits for defined contribution pension plans and multi-employer pension plans are expensed as contributions are paid.

The accrued benefit plan asset or liability represents the cumulative difference between the cost and the funding contributions and is recorded in other assets and other liabilities.

Stock Option Plan and Share Appreciation Rights

The Company recognizes in operating income a compensation cost and a liability related to employee stock option grants that will be settled by issuing its common shares. The compensation cost is the fair value of the stock option on the grant date using an option pricing model and is recognized in operating income on a prescribed vesting basis. On the exercise of this type of stock option, the consideration paid by the employee and the related fair value accrual is credited to common share capital. Each stock option granted before 2003 that will be settled by issuing common shares will be accounted for as a capital transaction and no compensation cost is recognized. Consideration paid by employees on the exercise of this type of stock option is credited to common share capital.

The Company recognizes in operating income a compensation cost and a liability related to employee stock option grants that allow for settlement in shares or in the share appreciation value in cash at the option of the employee and employee share appreciation right grants that will be settled in cash, using the intrinsic value method. Under the intrinsic value method, the stock-based compensation liability is the amount by which the market price of the common shares exceeds the exercise price of the stock options. A year-over-year change in the stock-based compensation liability is recognized in operating income on a prescribed vesting basis.

Restricted Share Unit ("RSU") Plan

The Company recognizes in operating income a compensation cost for each RSU granted equal to the market value of a Weston or Loblaw common share at the date on which RSUs are awarded to each participant prorated over the performance period and adjusts for changes in the market value until the end of the performance date. The cumulative effect of the changes in market values is recognized in operating income in the period of the change.

Deferred Share Units

Outside members of Weston's and Loblaw's Boards of Directors may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of deferred share units. The deferred share units obligation is accounted for using the intrinsic value method. Under the intrinsic value method, the deferred share unit compensation liability is the amount by which the market price of the common shares exceeds the initial value of the deferred share unit. The year-over-year change in the deferred share units liability is recognized as a compensation cost in operating income.

Employee Share Ownership Plan

Weston and Loblaw maintain Employee Share Ownership Plans ("ESOP") for their employees, which allow employees to acquire Weston's and Loblaw's common shares through payroll deductions of up to 5% of their gross regular earnings. Weston and Loblaw contribute an additional 25% (2004 – 15%) of each employee's contribution to their respective plans, which is recognized in operating income as a compensation cost when the contribution is made.

Use of Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that may be undertaken in the future. Actual results could differ from these estimates.

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

Comparative Information

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

2. Variable Interest Entities

Effective January 1, 2005, the Company implemented AcG 15, retroactively without restatement of prior periods and as a result, the Company consolidates entities in which it has control through ownership of a majority of the voting interests as well as all significant VIEs for which it is the primary beneficiary.

AcG 15 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIE's expected losses or that entitle it to receive a majority of the VIE's expected residual returns or both.

Upon implementation of AcG 15, the Company identified the following significant VIEs:

Independent Franchisees Loblaw enters into various forms of franchise agreements that generally require the independent franchisee to purchase inventory from Loblaw and pay certain fees in exchange for services provided by Loblaw and for the right to use certain trademarks and licenses owned by Loblaw. Independent franchisees generally lease the land and building from Loblaw, and when eligible, may obtain financing through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixturing and equipment. These trusts are administered by a major Canadian bank. Under the terms of certain franchise agreements, Loblaw may also lease equipment to independent franchisees. Independent franchisees may also obtain financing through operating lines of credit with traditional financial institutions or through issuing preferred shares or notes payable to Loblaw. Loblaw monitors the financial condition of its independent franchisees and provides for estimated losses or write-downs on its accounts and notes receivable or investments when appropriate. Upon implementation of AcG 15, the Company determined that 121 of Loblaw's independent franchisee stores met the criteria for VIEs that require consolidation by the Company pursuant to AcG 15.

Warehouse and Distribution Agreement Loblaw has entered into a warehousing and distribution agreement with a third party to provide to Loblaw distribution and warehousing services from a dedicated facility. Loblaw has no equity interest in this third party; however, the terms of the agreement with the third party are such that the Company has determined that the third party meets the criteria for a VIE that requires consolidation by the Company. As a result of the fee structure agreed to with this third party, the impact of the consolidation of the warehouse and distribution entity was not material.

Accordingly, the Company has included the results of these independent franchisees and this third-party entity that provides distribution and warehousing services in its consolidated financial statements effective January 1, 2005.

Details of the amounts recorded upon implementation and the effect on the opening consolidated balance sheet as at January 1, 2005 are summarized below and include the impact of both the independent franchisees and the warehouse and distribution entity:

CONDENSED CONSOLIDATED BALANCE SHEET AS AT JANUARY 1, 2005	Condensed consolidated balance sheet before AcG 15 impact	Impact of the implementation of AcG 15	Condensed consolidated balance sheet after AcG 15 impact
Cash and cash equivalents	$ 1,008	$ 20	$ 1,028
Short term investments	388		388
Accounts receivable	920	(73)	847
Inventories	1,979	78	2,057
Other current assets	250	4	254
Total current assets	4,545	29	4,574
Fixed assets	8,256	136	8,392
Goodwill and intangible assets	3,456	3	3,459
Other assets	1,512	(51)	1,461
Total assets	$ 17,769	$ 117	$ 17,886
Total current liabilities	$ 4,352	$ 48	$ 4,400
Long term debt	6,004	96	6,100
Other liabilities	967	(8)	959
Minority interest	2,066	(1)	2,065
Total liabilities	13,389	135	13,524
Common share capital	614		614
Retained earnings	4,170	(18)	4,152
Cumulative foreign currency translation adjustment	(404)		(404)
Total liabilities and shareholders' equity	$ 17,769	$ 117	$ 17,886

The impact of AcG 15 on the opening consolidated balance sheet can be further explained as follows:

- An after-tax, one-time charge of $18 (net of income taxes of $12 and minority interest of $11) was recorded upon implementation and resulted mainly from delaying the recognition of vendor monies to when the related inventories of the independent franchisees are sold to their customers, the excess of the independent franchisees' accumulated losses over the allowance for doubtful accounts previously recorded by the Company and the reversal of initial franchise fees initially recognized upon the sale of franchises to third parties.
- Accounts receivable due from the independent franchisees and the investment in preferred shares of the independent franchisees were eliminated upon consolidation; cash and cash equivalents, inventories and fixed assets financed by long term debt (a portion of which is due within one year) were recorded.
- An increase in fixed assets and total current liabilities in respect of the warehouse and distribution entity.
- Minority interest representing the common stakeholder's equity in the respective VIEs.

As at December 31, 2005, 123 of Loblaw's independent franchise stores met the criteria for a VIE and were consolidated pursuant to AcG 15.

The impact from the consolidation of these VIEs on the consolidated balance sheet as at December 31, 2005 was not significantly different than the impact on the opening consolidated balance sheet as outlined above. The impact on the consolidated statement of earnings for the year ended December 31, 2005 was predominantly an increase in sales of 1.3%. The impact on basic net earnings per common share from continuing operations for 2005 was a decline of approximately $0.03.

The consolidation of these VIEs by the Company does not result in any change to its tax, legal or credit risks nor does it result in the Company assuming any obligations of these third parties.

Independent Trust Loblaw has also identified that it holds a variable interest, by way of a standby letter of credit, in an independent trust which is used to securitize credit card receivables for PC Bank, a wholly-owned subsidiary of Loblaw. In these securitizations, PC Bank sells a portion of its credit card receivables to the independent trust in exchange for cash. Although this independent trust has been identified as a VIE, it was determined that Loblaw is not the primary beneficiary and therefore this VIE is not subject to consolidation by the Company. The Company's maximum exposure to loss as a result of its involvement with this independent trust is disclosed in notes 11 and 22.

3. Restructuring and Other Charges

The following table summarizes the restructuring and other charges:

			2005			2004
	Weston Foods	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Fixed asset impairment		**$ 10**	**$ 10**	$ 84		$ 84
Accelerated depreciation	**$ 21**	**4**	**25**	2		2
Gain on sale of fixed assets	**(18)**		**(18)**			
Intangible asset impairment				18		18
Employee termination benefits	**23**	**51**	**74**	12		12
Site closing and other exit costs	**6**	**21**	**27**	5	$ 1	6
Restructuring and other charges	**$ 32**	**$ 86**	**$ 118**	$ 121	$ 1	$ 122

Weston Foods

Weston Foods management continues to undertake a series of cost reduction initiatives to ensure a low cost operating structure. Certain of these initiatives are in progress or nearing completion while others are still in the planning stages. Individual actions will be initiated as plans are finalized and approved.

During 2005, Weston Foods made further progress on its objective of simplifying and removing cost from its existing manufacturing processes and approved plans to exit certain bread and roll manufacturing lines in the United States. All production associated with these lines was transferred to third-party producers or other Weston Foods manufacturing facilities by the end of 2005. As a result of this decision, Weston Foods recognized $1 of employee termination benefits and other exit related costs and $4 of accelerated depreciation on manufacturing equipment.

During 2005, Weston Foods approved a plan to restructure its United States biscuit operations. This plan will result in the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia by the end of 2006. Employment at both facilities is being phased down as the majority of the production is relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota. Once completed, this initiative is anticipated to result in lowering manufacturing costs and strengthening Weston Foods competitive position within its biscuit operations in the United States. As a result of this restructuring, Weston Foods expects to recognize certain incremental exit and start-up costs of approximately $50 over 2005 and 2006 including employee related severance, benefit and training costs, production equipment relocations and other facility start-up related costs. In addition, Weston Foods expects to recognize accelerated depreciation on assets currently held-for-use of approximately $25 over 2005 and 2006. During 2005, Weston Foods recognized $28 of employee termination benefits and other exit related costs, $15 of accelerated depreciation, a gain of $18 related to the sale and lease-back of the two facilities to be closed associated with this restructuring plan and start-up related costs in operating income of approximately $3. Weston Foods received total proceeds of $47 related to the sale of the two biscuit facilities.

During 2005, Weston Foods approved plans to consolidate, relocate and restructure certain of its administrative offices within North America, which resulted in Weston Foods recognizing $8 of employee termination benefits and other exit related costs during 2005.

During 2004, major actions implemented included the completion of the Northlake, Illinois and Buffalo, New York bakery facility closures, the closure of the frozen-baked goods facility in St. Louis, Missouri and the exiting of the fresh waffle business in the United States as well as the closure of three bakeries and a distribution centre in Canada. As a result of these initiatives and other various distribution outsourcing and overhead reduction projects, Weston Foods recorded total restructuring charges of approximately $55. These charges consisted of $36 of fixed asset write-downs, $17 of employee termination benefits and other exit related costs and $2 of accelerated depreciation.

During 2005, Weston Foods recognized restructuring income of $8 related to the reversal of employee termination benefits and other exit related costs accruals no longer required and accelerated depreciation of $2 related to restructuring plans approved prior to 2005.

In 2005, employee termination benefits and other exit related costs of approximately $13 (2004 – $13) were paid related to restructuring activities. As at year end 2005, the accrued liabilities related to these restructuring activities were $26. In addition, related to these restructuring activities, a net curtailment loss of $2 for defined benefit plans was applied to other assets and a net curtailment gain of $2 for other benefit plans was applied to other liabilities, both of which were recorded in restructuring and other charges.

During 2004, an impairment review of the production assets employed in Weston Foods fresh-baked sweet goods category in the United States, which relate primarily to products sold under the *Entenmann's* brand name, was performed as a result of the significant decline in the profitability of this category in 2004. The production assets reviewed included land, buildings, machinery and equipment associated with three of Weston Foods' bakery facilities located in Bayshore and Albany, New York and Carlisle, Pennsylvania. Weston Foods' profitability in the United States fresh-baked sweet goods category remains challenged by:

- changing consumer eating and shopping preferences;
- a high fixed cost manufacturing and distribution structure;
- continuing commodity and people related cost pressures; and
- a difficult pricing environment for products in that category.

As a result of the impairment review, it was determined that the carrying value exceeded the estimated undiscounted cash flows expected from the use and eventual disposition of these production assets. Accordingly, a $48 non-cash pre-tax impairment charge was recognized in 2004 which was measured as the excess of the impaired assets carrying value over its estimated fair value. Fair value was determined using appraised values based on prices for similar assets. The impaired assets are primarily related to production assets held in the Bay Shore, New York bakery facility.

During 2004, as part of Weston Foods' annual impairment assessment of the *Entenmann's* brand name indefinite life intangible assets, management reduced its previous estimate of the royalty rate used in the calculation of the estimated fair value as Weston Foods' profitability in the fresh-baked sweet goods category had declined significantly and remained challenged as a result of the factors described above. As a result, the Company recorded an $18 non-cash pre-tax impairment loss to reduce the carrying value of Weston Foods' *Entenmann's* brand name to estimated fair value.

Loblaw

During 2005, after completion of a detailed assessment of its supply chain network, management of Loblaw approved a comprehensive plan to restructure its supply chain operations nationally. This plan is expected to reduce future operating costs, provide a smoother flow of products and better service levels to stores and further enable Loblaw to achieve its targeted operating efficiencies. The plan involves the closure of six distribution centres and the relocation of certain activities to new distribution centres. The transfer of the distribution

activities of general merchandise to a new facility owned and operated by a third party in Pickering, Ontario, was substantially completed by the end of 2005. In addition, a new distribution centre dedicated to food distribution is expected to open in late 2007 or early 2008 in Ajax, Ontario. As a result of these initiatives, it is expected that approximately 1,400 positions will be affected within the supply chain network. The restructuring plan is expected to be completed by late 2007 or early 2008 and the total restructuring cost under this plan is estimated to be approximately $90. Of the $90 total estimated cost, approximately $57 is attributable to employee termination benefits which include severance and additional pension costs resulting from the termination of employees, $13 to fixed asset impairment and accelerated depreciation of assets relating to this restructuring activity and $20 to site closing and other costs directly attributable to the restructuring plan. In 2005, Loblaw recognized $51 of employee termination benefits and other exit related costs and $11 of fixed asset impairment and accelerated depreciation resulting from this plan.

In addition, Loblaw consolidated several administrative and operating offices from across southern Ontario into a new national head office and Store Support Centre in Brampton, Ontario and reorganized the merchandising, procurement and operations groups which included the transfer of the general merchandise operations from Calgary, Alberta to the new office facility. The charge recognized in 2005 was $21 of employee termination benefits and other exit related costs and $3 of fixed asset impairment and accelerated depreciation. These restructuring activities were substantially completed by the end of 2005.

In 2005, severance and other cash exit costs of approximately $31 were paid related to these plans. Accrued liabilities and other liabilities related to these restructuring activities were $7 and $25, respectively. In addition, $9 was applied to other assets which represents defined benefit pension plan costs related to these restructuring activities.

4. Goods and Services Tax and Provincial Sales Taxes

During 2005, Loblaw recorded a charge relating to an audit and proposed assessment by the Canada Revenue Agency relative to GST on certain products sold between 2000 and 2002 on which GST was not appropriately charged and remitted. In light of this proposed assessment, the Company assessed and estimated the potential liabilities for GST and PST in other areas of its operations for various periods up to the end of 2004. Accordingly, a charge of $40 was recorded in operating income in the third quarter of 2005 to reflect management's best estimate of such potential tax liabilities of which management is currently aware. Approximately $15 of this amount was settled during the fourth quarter of 2005. The ultimate remaining amount paid will depend on the outcome of audits performed by, or settlements reached with the various tax authorities and therefore may differ from this estimate. Management will continue to assess this remaining accrual as progress towards resolution with the various tax authorities is made and will adjust the remaining accrual accordingly.

5. Interest Expense and Other Financing Charges

	2005	2004
Interest on long term debt	**$ 404**	$ 412
Interest on financial derivative instruments (note 20)	**(1)**	(28)
Other financing charges[1]	**(170)**	82
Net short term interest	**(25)**	(7)
Capitalized to fixed assets	**(21)**	(21)
Interest expense and other financing charges	**$ 187**	$ 438

(1) Other financing charges for 2005 include non-cash income of $150 (2004 – non-cash charge of $101) related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares which was entered into during 2001 and matures in 2031. The Company began to recognize this non-cash charge or income prospectively in interest expense and other financing charges during the third quarter of 2004 due to the implementation of the amendment to EIC 56. The fair value adjustment is based on the fluctuations in the market value of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the underlying Loblaw shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the balance sheet in other assets and other liabilities. Also included in other financing charges is income of $20 (2004 – $19) related to the forward accretion income net of the forward fee associated with Weston's forward sale agreement.

Net interest paid in 2005 was $378 (2004 – $397).

6. Business Acquisitions

Weston Foods

On September 27, 2004, Weston purchased all of the issued and outstanding common shares of Boulangerie Gadoua Ltée ("Gadoua"), a bakery business operated in Quebec, Canada, for $59, consisting of $46 of cash consideration, $6 in Weston common shares issued from treasury and assumed debt of $7, subject to certain adjustments.

The acquisition was accounted for using the purchase method. During the fourth quarter of 2005, Weston completed the Gadoua valuation analysis and recorded the final purchase equation, including goodwill of $18. Operating results of Gadoua have been included in the Company's consolidated financial statements since September 27, 2004.

Details of the final purchase equation, including total consideration paid and net assets acquired at their fair value, are summarized below:

	As at Sept. 27, 2004
Current assets	$ 11
Fixed assets	19
Intangible assets	27
Current liabilities	(8)
Long term debt	(7)
Future income taxes	(8)
Net assets acquired	34
Goodwill	18
	52
Less non-cash consideration:	
Weston common shares issued	(6)
Cash consideration	$ 46

Loblaw

When Loblaw purchases its own common shares, the Company accounts for the purchase as a step-by-step purchase of Loblaw. During 2005, Loblaw purchased for cancellation 226,100 (2004 – 576,100) of its common shares for $16 (2004 – $35) pursuant to its Normal Course Issuer Bid ("NCIB"), which resulted in the Company recognizing $7 (2004 – $16) of goodwill.

In the normal course of business, Loblaw may acquire from time to time franchisee stores and convert them to corporate stores. In 2005, Loblaw acquired 7 franchisee businesses (2004 – 5 franchisee businesses). The acquisitions were accounted for using the purchase method of accounting with the results of the businesses acquired included in the consolidated financial statements from the date of acquisition. The fair value of the net assets acquired consisted of a nominal amount of fixed assets (2004 – nominal), other assets principally inventory of $3 (2004 – $2) and goodwill of $3 (2004 – $6) for cash consideration of $5 (2004 – $6), net of accounts receivable due from the franchisees of $1 (2004 – $2).

During 2004, Westfair Foods Ltd. ("Westfair"), a subsidiary of Loblaw, redeemed its Class A shares at a price of 350 dollars per share for cash consideration of $8. The transaction was accounted for as a step-by-step purchase of Westfair, which resulted in Loblaw recognizing $8 of goodwill.

7. Income Taxes

The effective income tax rate in the consolidated statements of earnings is reported at a rate different than the weighted average basic Canadian federal and provincial statutory income tax rate for the following reasons:

	2005	2004
Weighted average basic Canadian federal and provincial statutory income tax rate	**34.2%**	35.1%
Net decrease resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(3.3)**	(7.5)
Non-taxable amounts (including capital gains/losses and dividends)	**(0.5)**	(0.6)
Large corporation tax	**0.5**	0.8
Impact of statutory income tax rate changes on future income tax balances	**0.2**	
Impact of resolution of certain income tax matters from a previous year and other	**(0.5)**	(0.4)
Effective income tax rate	**30.6%**	27.4%

Future income tax balances were adjusted for statutory income tax rate changes in certain Canadian provinces in 2005, resulting in a $3 charge to future income tax expense. In 2004, Loblaw recognized a $14 reduction to the income tax expense as a result of the successful resolution of certain income tax matters from a previous year.

Net income taxes paid in 2005 were $340 (2004 – $441).

The income tax effects of temporary differences that gave rise to significant portions of the future income tax assets (liabilities) were as follows:

	2005	2004
Accounts payable and accrued liabilities	**$ 107**	$ 149
Other liabilities	**156**	219
Losses carried forward (expiring 2006 to 2025)	**169**	169
Other	**50**	32
Valuation allowances	**(54)**	(54)
Fixed assets	**(337)**	(320)
Goodwill	**(49)**	(56)
Intangible assets and other	**(162)**	(139)
Net future income tax liabilities	**$ (120)**	$ –

	2005	2004
Recorded in the consolidated balance sheets as follows:		
Future income tax assets		
Current	**$ 134**	$ 140
Non-current	**89**	110
	223	250
Future income tax liabilities	**(343)**	(250)
Net future income tax liabilities	**$ (120)**	$ –

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

	2005	2004
Net earnings from continuing operations	$ 716	$ 606
Prescribed dividends on preferred shares	(39)	(27)
Net earnings from continuing operations available to common shareholders	$ 677	$ 579
Weighted average common shares outstanding (in millions)	129.0	128.9
Dilutive effect of stock-based compensation (in millions)[1]	.1	.3
Diluted weighted average common shares outstanding (in millions)	129.1	129.2
Basic net earnings per common share from continuing operations ($)	$ 5.25	$ 4.49
Dilutive effect of stock-based compensation per common share ($)		(.01)
Diluted net earnings per common share from continuing operations ($)	$ 5.25	$ 4.48

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

Option exercise price	2005	2004
$100.00		193,000
$111.02	579,717	

9. Discontinued Operations

In December 2004, management approved a strategic plan to actively market for sale the remaining Fisheries operations. The operating results of the Fisheries segment are included in discontinued operations. In addition, the assets and liabilities relating to the Fisheries segment are classified as held for sale.

During 2005, the Company completed the previously announced sales of the remaining discontinued Fisheries operations. As a result of these sales, the Company will receive total net proceeds of $38, of which $12 will be deferred over the next four years, and recorded an after-tax loss of $24 as a loss from discontinued operations in 2005.

Subsequent to year end, the Company reached an agreement to settle claims against it relating to certain alleged misrepresentations and warranties arising from the sale of the Company's forest products business in 1998, including tax related representations and warranties dealing with years prior to 1998. The Company did not admit any wrongdoing or liability in connection with the settlement. The Company previously accrued for certain of these tax related claims in prior years. The net impact of this settlement agreement has been reflected in the 2005 loss from discontinued operations. A payment of $7 was made during the first quarter of 2006 as a result of this settlement agreement.

During 2004, Weston sold all of the Fisheries' operations in Chile for cash proceeds of $20 which resulted in a pre-tax loss of $9.

In addition, during 2004, the assets and liabilities relating to the Fisheries segment were valued at the lower of cost or fair value less costs to sell, resulting in an impairment charge of $194 ($147 net of tax) recognized in discontinued operations.

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

	2005	2004
Sales	$ 79	$ 164
Operating loss	4	29
Loss on disposal	28	9
Impairment charge		194
Loss before the following:	32	232
Income tax recovery	14	54
Loss from discontinued operations	$ 18	$ 178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The assets held for sale and related liabilities were as follows as at year end:

	2005	2004
Current assets of operations held for sale:		
Accounts receivable		$ 20
Inventories		41
Prepaid expenses and other assets		1
		$ 62
Long term assets of operations held for sale:		
Fixed assets		$ 10
Other assets	**$ 12**	1
	$ 12	$ 11
Current liabilities of operations held for sale:		
Accounts payable and accrued liabilities	**$ 10**	$ 22

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

	2005	2004
Cash flows used in operations	**$ (3)**	$ (39)
Cash flows from investing	**25**	7
Cash flows used in financing		(2)
Cash flows from (used in) discontinued operations	**$ 22**	$ (34)

10. Cash, Cash Equivalents and Short Term Investments

At year end, the Company had $1.5 billion (2004 – $1.4 billion) in cash, cash equivalents and short term investments held or managed by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw in Barbados. The $47 (2004 – $21) of income from cash, cash equivalents and short term investments was recognized in net short term interest.

The Company recognized an unrealized foreign currency exchange rate loss of $54 (2004 – $77) as a result of translating its United States dollar denominated cash and cash equivalents. The portion of this change which related to Loblaw's United States dollar denominated cash and cash equivalents amounts to $31 (2004 – $45) and is offset in operating income by the unrealized foreign currency exchange rate gain on Loblaw's cross currency basis swaps. A cumulative unrealized foreign currency exchange rate receivable of $168 (2004 – $155) related to Loblaw's cross currency basis swaps is recorded in other assets on the balance sheet. The remaining foreign currency exchange rate loss of $23 (2004 – $32) relates to the translation of cash and cash equivalents held by Weston's self-sustaining foreign operations, which is recognized as part of shareholders' equity in cumulative foreign currency translation adjustment.

11. Credit Card Receivables

The Company, through PC Bank, securitizes credit card receivables through the sale of a portion of the total interest in these receivables to an independent trust and does not exercise any control over the trust's management, administration or assets. When PC Bank sells credit card receivables in a securitization transaction, it has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. Although PC Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the trust.

During 2005, $225 (2004 – $227) of credit card receivables were securitized, through the sale of a portion of the total interest in these receivables to an independent trust yielding a nominal net loss (2004 – nominal net gain) on the initial sale, inclusive of a $1 (2004 – $1) servicing liability. Servicing liabilities expensed during the year were $13 (2004 – $11) and the fair value at year end of recognized servicing liabilities was $8 (2004 – $7). The trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported by Loblaw through a standby letter of credit for 9% (2004 – 15%) of the securitized amount.

	2005	2004
Credit card receivables	$ 1,257	$ 950
Amount securitized	(1,010)	(785)
Net credit card receivables	$ 247	$ 165
Net credit loss experience	$ 5	$ 4

The net credit loss experience of $5 (2004 – $4) includes $33 (2004 – $23) of credit losses on the total portfolio of credit card receivables net of credit losses of $28 (2004 – $19) relating to securitized credit card receivables.

The following table outlines the key economic assumptions used in measuring the retained interests at the date of securitization for securitizations completed in 2005. The table also displays the sensitivity of the current fair value of retained interests to an immediate 10% and 20% adverse change in the 2005 key economic assumptions. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

		Change in Assumptions	
	2005	10%	20%
Carrying value of retained interests	$ 5		
Payment rate (monthly)	46.0%		
Weighted average life (years)	0.6		
Expected credit losses (annual)	3.0%	$ (0.5)	$ (1.0)
Discount rate applied to residual cash flows (annual)	14.0%	$ (1.6)	$ (3.1)

The details on the cash flows from securitization are as follows:

	2005	2004
Proceeds from new securitizations	$ 225	$ 227
Net cash flows received on retained interests	$ 106	$ 83

In October 2005, Eagle Credit Card Trust ("Eagle"), an independent trust, was established for the purpose of issuing notes backed by credit card receivables originated and serviced by PC Bank. Subsequent to year end, Eagle issued $500, five year notes at a weighted average rate of 4.5%, due 2011, to finance the purchase of credit card receivables previously securitized by PC Bank, from an independent trust. PC Bank will continue to service the credit card receivables on behalf of Eagle, but will not receive any fee for its servicing obligations and has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. In accordance with Canadian GAAP, the financial statements of Eagle will not be consolidated with those of the Company.

12. Fixed Assets

			2005			2004
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	$ 442		$ 442	$ 378		$ 378
Properties under development	231		231	290		290
Land	1,718		1,718	1,623		1,623
Buildings	4,961	$ 959	4,002	4,443	$ 863	3,580
Equipment and fixtures	5,035	2,985	2,050	4,587	2,601	1,986
Buildings and leasehold improvements	769	299	470	688	296	392
	13,156	4,243	8,913	12,009	3,760	8,249
Capital leases – buildings and equipment	99	96	3	98	91	7
Fixed assets	$ 13,255	$ 4,339	$ 8,916	$ 12,107	$ 3,851	$ 8,256

Fixed asset impairment and accelerated depreciation charges of $7 (2004 – $22) were recognized in operating income. The majority of the 2004 charges resulted from the repositioning of Loblaw's Ontario, Canada banner portfolio. An additional $35 (2004 – $86) was recognized in restructuring and other charges in 2005 for restructuring plans undertaken by Weston Foods and Loblaw (see note 3). The fair values were determined using quoted market prices where available, independent offers to purchase where available or prices for similar assets.

13. Goodwill and Intangible Assets

Changes in the carrying value of goodwill and intangible assets were as follows:

			2005			2004
	Weston Foods	Loblaw	Total	Weston Foods	Loblaw	Total
Goodwill, beginning of year	$ 1,203	$ 1,754	$ 2,957	$ 1,269	$ 1,724	$ 2,993
Goodwill acquired during the year		14	14	21	30	51
Adjusted purchase price allocation[1]	(3)	(41)	(44)			
Impact of foreign currency translation	(41)		(41)	(87)		(87)
Goodwill, end of year	1,159	1,727	2,886	1,203	1,754	2,957
Trademarks and brand names[2]	465		465	482		482
Other intangible assets	16		16	17		17
Goodwill and intangible assets	$ 1,640	$ 1,727	$ 3,367	$ 1,702	$ 1,754	$ 3,456

(1) The Weston Foods adjusted purchase price allocation relates to the finalization of the Gadoua purchase equation. The Loblaw adjusted purchase price allocation relates to the resolution of certain income tax matters previously accrued for as part of the Provigo Inc. purchase equation.

(2) Year end 2005 balance includes the negative impact of foreign currency translation of $16 and amortization of $1. Year end 2004 balance includes the acquisition of *Gadoua* trademarks and brand names of $15, the negative impact of the impairment charge for the *Entenmann's* trademark and brand names of $18 and the negative impact of foreign currency translation of $38.

The Weston Foods intangible assets primarily relate to trademarks and brand names, of which $450 have an indefinite useful life and, accordingly, are not being amortized. The *Gadoua* trademark and brand names and other intangible assets are being amortized over their estimated useful life ranging from 5 to 30 years.

The Weston Foods and Loblaw goodwill and the Weston Foods intangible assets with an indefinite useful life are tested annually for impairment. During the fourth quarter of 2005, the Company performed the annual goodwill and indefinite life intangible asset impairment tests and determined that there was no impairment to the carrying value of the goodwill or intangible assets. During the fourth quarter of 2004, the Company performed the annual goodwill and indefinite life intangible assets impairment tests and determined that an impairment charge of $18 for the *Entenmann's* trademarks and brand names was required (see note 3).

Goodwill acquired during 2005 and 2004 includes $7 (2004 – $16) related to the step-by-step purchase of Loblaw, $3 (2004 – $6) related to Loblaw's acquisition of franchise stores (see note 6) and $4 related to independent franchisees that were consolidated by the Company pursuant to the requirements of AcG 15 (see note 2). In addition, goodwill acquired during 2004 includes $21 related to Weston Foods' acquisition of Gadoua and $8 related to Loblaw's Westfair subsidiary redemption of its Class A shares (see note 6).

14. Other Assets

	2005	2004
Domtar investment (note 16)	$ 220	$ 365
Franchise investments and other receivables	313	329
Deferred loss on equity forward sale (note 20)	125	125
Accrued benefit plan asset (note 15)	183	126
Unrealized cross currency basis swaps receivable (notes 10 and 20)	168	155
Unrealized equity derivative receivable (note 20)	99	120
Deferred charges and other	213	171
Other assets	$ 1,321	$ 1,391

15. Employee Future Benefits

The Company sponsors a number of pension plans, which include registered funded defined benefit pension plans, supplemental unfunded arrangements which provide pension benefits in excess of statutory limits and defined contribution pension plans. Certain obligations of the Company to these supplemental pension arrangements are secured by a standby letter of credit issued by a major Canadian bank. Its defined benefit pension plans are predominantly non-contributory and these benefits are, in general, based on career average earnings.

The Company also offers certain employees post-retirement and post-employment benefit plans and long term disability benefit plans. Post-retirement and post-employment benefit plans are not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for post-retirement benefits are those who retire at certain retirement ages and employees eligible for post-employment benefits are those on long term disability leave. The majority of post-retirement health care plans for current and future retirees include a limit on the total benefits payable by the Company.

The Company also contributes to various multi-employer pension plans which provide pension benefits.

The accrued benefit plan obligations and the fair value of the benefit plan assets were determined using a September 30 measurement date for accounting purposes.

The most recent actuarial valuations of the Canadian defined benefit pension plans for funding purposes ("funding valuations") were as of December 31, 2003 for all plans except three plans which were as of December 31, 2004. The Company is required to file Canadian funding valuations at least every three years; accordingly, the next required funding valuations will be as of December 31, 2006 and 2007, respectively. The most recent funding valuations of the U.S. defined benefit pension plans were as of January 1, 2005. The Company is required to file U.S. funding valuations every year; accordingly, the next required valuations will be as of January 1, 2006.

Total cash payments made by the Company during 2005, consisting of contributions to funded defined benefit pension plans, defined contribution pension plans, multi-employer pension plans, long term disability benefit plans and benefits paid directly to beneficiaries of the unfunded defined benefit pension plans and unfunded other benefit plans, were $240 (2004 – $219).

The aggregate of the funded defined benefit pension plans and long term disability benefit plan contributions for 2006 are estimated to be $120, and may vary subject to actuarial valuations being completed. The Company also expects to make contributions in 2006 to defined contribution pension plans and multi-employer pension plans as well as benefit payments directly to the beneficiaries of the unfunded defined benefit pension plans and other unfunded benefit plans.

Information on the Company's defined benefit pension plans and other benefit plans, in aggregate, was as follows:

	2005			2004		
	Pension Benefit Plans	Other Benefit Plans [1]	Total	Pension Benefit Plans	Other Benefit Plans [1]	Total
Benefit Plan Assets						
Fair value, beginning of year	$ 1,319	$ 39	$ 1,358	$ 1,224	$ 35	$ 1,259
Actual return on plan assets	152	2	154	118	1	119
Employer contributions	107	25	132	89	23	112
Voluntary employee contributions	4		4	4		4
Benefits paid	(91)	(21)	(112)	(91)	(20)	(111)
Other, including impact of foreign currency translation	(11)		(11)	(25)		(25)
Fair value, end of year	$ 1,480	$ 45	$ 1,525	$ 1,319	$ 39	$ 1,358
Accrued Benefit Plan Obligations						
Balance, beginning of year	$ 1,571	$ 308	$ 1,879	$ 1,509	$ 333	$ 1,842
Current service cost	59	9	68	56	9	65
Interest cost	98	18	116	95	20	115
Benefits paid	(91)	(21)	(112)	(91)	(20)	(111)
Actuarial loss (gain)	214	81	295	33	(7)	26
Plan amendments/past service costs	1	2	3		(11)	(11)
Contractual termination benefits [2]	9		9			
Curtailment gain [3]	(6)	(15)	(21)			
Other, including impact of foreign currency translation	(15)	(5)	(20)	(31)	(16)	(47)
Balance, end of year	$ 1,840	$ 377	$ 2,217	$ 1,571	$ 308	$ 1,879
Deficit of Plan Assets Versus Plan Obligations	$ (360)	$ (332)	$ (692)	$ (252)	$ (269)	$ (521)
Unamortized cost of plan amendments/past service costs	7	(41)	(34)	10	(49)	(39)
Unamortized net actuarial loss	433	179	612	283	119	402
Net accrued benefit plan asset (liability)	$ 80	$ (194)	$ (114)	$ 41	$ (199)	$ (158)
Recorded in the consolidated balance sheets as follows:						
Other assets (note 14)	$ 145	$ 38	$ 183	$ 98	$ 28	$ 126
Other liabilities (note 17)	(65)	(232)	(297)	(57)	(227)	(284)
Net accrued benefit plan asset (liability)	$ 80	$ (194)	$ (114)	$ 41	$ (199)	$ (158)

(1) Other Benefit Plans include post-retirement, post-employment and long term disability benefits.

(2) Contractual termination benefits resulted from the plan to restructure the Loblaw supply chain operations nationally and were recorded in restructuring and other charges (see note 3).

(3) Certain defined benefit pension plans and other benefit plans affected by the plan to restructure Weston Foods' United States biscuit operations, the plan to restructure Loblaw's supply chain operations nationally and the plan to exit certain of Weston Foods' United States bread lines were remeasured as at March 1, 2005, March 31, 2005 and August 1, 2005 respectively. For these plans, costs subsequent to these dates were determined using discount rates of 5.75%, 5.75% and 5.50% respectively. The majority of the resulting curtailment gains were offset against net unamortized actuarial losses for those plans. A net curtailment loss of $2 for defined benefit pension plans and a net curtailment gain of $2 for other benefit plans were recorded in restructuring and other charges (see note 3).

Included in the accrued benefit plan obligations and the fair value of benefit plan assets at year end are the following amounts in respect of plans with accrued benefit plan obligations in excess of benefit plan assets:

	2005		2004	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Fair Value of Benefit Plan Assets	**$ 1,480**		$ 1,253	
Accrued Benefit Plan Obligations	**1,840**	**$ 333**	1,506	$ 274
Deficit	**$ 360**	**$ 333**	$ 253	$ 274

The significant annual weighted average actuarial assumptions used in calculating the Company's accrued benefit plan obligations as at the measurement date of September 30 and the net defined benefit plan cost for the year were as follows:

	2005		2004	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Accrued Benefit Plan Obligations				
Discount rate	**5.3%**	**5.3%**	6.2%	6.1%
Rate of compensation increase	**3.5%**		3.5%	
Net Defined Benefit Plan Cost				
Discount rate(1)	**6.2%**	**6.1%**	6.3%	6.1%
Expected long term rate of return on plan assets	**8.0%**	**5.5%**	8.0%	4.5%
Rate of compensation increase	**3.5%**		3.5%	

(1) Certain defined benefit pension plans and other benefit plans affected by the plan to restructure Weston Foods' United States biscuit operations, the plan to restructure Loblaw's supply chain operations nationally and the plan to exit certain of Weston Foods' United States bread lines were remeasured as at March 1, 2005, March 31, 2005 and August 1, 2005 respectively. For these plans, costs subsequent to these dates were determined using discount rates of 5.75%, 5.75% and 5.50% respectively. The majority of the resulting curtailment gains were offset against net unamortized actuarial losses for those plans. A net curtailment loss of $2 for defined benefit pension plans and a net curtailment gain of $2 for other benefit plans were recorded in restructuring and other charges (see note 3).

The Company's growth rate of health care costs, primarily drug and other medical costs, was estimated at 10.0% (2004 – 9.0%) and is assumed to gradually decrease to 5.0% by 2013 (2004 – 5.0% by 2008) and remain at that level thereafter.

The benefit plan assets are held in trust and at September 30 consisted of the following asset categories:

	2005		2004	
	Percentage of Plan Assets		Percentage of Plan Assets	
Asset Category	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Equity securities	64%		64%	
Debt securities	34%	99%	34%	95%
Cash and cash equivalents	2%	1%	2%	5%
Total	100%	100%	100%	100%

Pension benefit plan assets include securities issued by Weston and by Loblaw having a fair value of $5 and nil (2004 – $5 and nil) respectively as at September 30. Other benefit plan assets do not include any Weston or Loblaw securities.

The total net cost for the Company's benefit plans and the multi-employer pension plans was as follows:

	2005		2004	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Current service cost, net of employee contributions	$ 55	$ 9	$ 52	$ 9
Interest cost on plan obligations	98	18	95	20
Actual return on plan assets	(152)	(2)	(118)	(1)
Actuarial loss (gain)	214	81	33	(7)
Plan amendments/past service costs	1	2		(11)
Contractual termination benefits[1]	9			
Curtailment loss (gain)[2]	2	(2)		
Benefit plan costs, before adjustments to recognize the long term nature of employee future benefit costs	227	106	62	10
Difference between costs arising in the year and costs recognized in the year in respect of:				
Return on plan assets	44		20	
Actuarial (loss) gain	(204)	(74)	(22)	6
Plan amendments/past service costs		(5)	2	6
Net defined benefit plan cost	67	27	62	22
Defined contribution plan cost	23		24	
Multi-employer pension plan cost	85		83	
Net benefit plan cost	$ 175	$ 27	$ 169	$ 22
Recognized in the consolidated statements of earnings as follows:				
Pension and other benefit plan costs in operating income	$ 164	$ 29	$ 169	$ 22
Restructuring and other charges[1, 2]	11	(2)		
Net benefit plan cost	$ 175	$ 27	$ 169	$ 22

(1) Contractual termination benefits resulted from the plan to restructure the Loblaw supply chain operations nationally and were recorded in restructuring and other charges (see note 3).

(2) Certain defined benefit pension plans and other benefit plans affected by the plan to restructure Weston Foods' United States biscuit operations, the plan to restructure Loblaw's supply chain operations nationally and the plan to exit certain of Weston Foods' United States bread lines were remeasured as at March 1, 2005, March 31, 2005 and August 1, 2005 respectively. For these plans, costs subsequent to these dates were determined using discount rates of 5.75%, 5.75% and 5.50% respectively. The majority of the resulting curtailment gains were offset against net unamortized actuarial losses for those plans. A net curtailment loss of $2 for defined benefit pension plans and a net curtailment gain of $2 for other benefit plans were recorded in restructuring and other charges (see note 3).

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2005 and the sensitivity of a 1% change in each of these assumptions on the accrued benefit plan obligations and on the benefit plan cost for the defined benefit pension plans and other benefit plans. The table reflects the impact on the current service and interest cost components for the discount rate and expected growth rate of health care costs assumptions.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Pension Benefit Plans		Other Benefit Plans	
	Accrued Benefit Plan Obligations	Benefit Plan Cost [1]	Accrued Benefit Plan Obligations	Benefit Plan Cost [1]
Expected long term rate of return on plan assets		8.0%		5.5%
Impact of: 1% increase	n/a	$ (12)	n/a	$ –
1% decrease	n/a	$ 12	n/a	$ –
Discount rate	5.3%	6.2%	5.3%	6.1%
Impact of: 1% increase	$ (248)	$ (14)	$ (46)	$ (2)
1% decrease	$ 288	$ 14	$ 53	$ 5
Expected growth rate of health care costs[2]			10.0%	9.0%
Impact of: 1% increase	n/a	n/a	$ 41	$ 4
1% decrease	n/a	n/a	$ (42)	$ (5)

n/a – not applicable

(1) Discount rate and expected growth rate of health care costs sensitivity is for current service and interest costs only.

(2) Gradually decreasing to 5.0% by 2013 for the accrued benefit plan obligation and gradually decreasing to 5.0% by 2008 for the benefit plan cost and remaining at that level thereafter.

16. Long Term Debt

	2005	2004
George Weston Limited		
Debentures		
Series B, current rate 3.75%, due on demand[i]	$ 138	$ 102
Series A, 7.00%, due 2031[i]	466	466
Exchangeable Debentures, 3.00%, due 2023, redeemable in 2005[ii]		
Carrying amount	143	503
Deferred amount	82	(130)
Notes		
5.25%, due 2006	200	200
5.90%, due 2009	250	250
6.45%, due 2011	300	300
5.05%, due 2014	200	200
12.70%, due 2030		
Principal	150	150
Effect of coupon repurchase	(123)	(120)
7.10%, due 2032	150	150
6.69%, due 2033	100	100
Other at a weighted average interest rate of 6.29%, due 2006 to 2033	1	6
Loblaw Companies Limited		
Notes		
6.95%, due 2005[iii]		200
6.00%, due 2008	390	390
5.75%, due 2009	125	125
7.10%, due 2010	300	300
6.50%, due 2011	350	350
5.40%, due 2013	200	200
6.00%, due 2014	100	100
7.10%, due 2016	300	300
6.65%, due 2027	100	100
6.45%, due 2028	200	200
6.50%, due 2029	175	175
11.40%, due 2031		
Principal	151	151
Effect of coupon repurchase	(26)	(18)
6.85%, due 2032	200	200
6.54%, due 2033	200	200
8.75%, due 2033	200	200
6.05%, due 2034	200	200
6.15%, due 2035	200	200
5.90%, due 2036[iii]	300	
6.45%, due 2039	200	200
7.00%, due 2040	150	150
5.86%, due 2043	55	55
Other at a weighted average interest rate of 7.21%, due 2006 to 2043	33	43
Provigo Inc.		
Debentures		
Series 1996, 8.70%, due 2006	125	125
Other[iv]	1	5
VIE loans payable[v]	126	
Total long term debt	6,412	6,328
Less – amount due within one year	(361)	(222)
– amount due on demand	(138)	(102)
	$ 5,913	$ 6,004

The five-year schedule of repayment of long term debt based on maturity, excluding the Exchangeable Debentures and the amount due on demand, is as follows: 2006 – $361; 2007 – $24; 2008 – $407; 2009 – $390; 2010 – $314.

(i) During 2005, Weston issued $36 (2004 – $35) of Series B Debentures due on demand, which are at a current weighted average interest rate of 3.75%. The Series A, 7.00% and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

(ii) In 1998, Weston sold its Forest Products business to Domtar for proceeds of $803, consisting of $435 of cash and $368 of Domtar common shares. The Domtar common share investment is recorded in other assets. Weston subsequently issued $375 of 3% Exchangeable Debentures ("Debentures") due June 30, 2023. Each one thousand dollar principal amount of the Debentures is exchangeable at the option of the holder for 95.2381 Domtar common shares. The Debentures became redeemable at the option of Weston after June 30, 2005. Upon notice of redemption by Weston or within 30 days prior to the maturity date, the holder has the option to exchange each one thousand dollar principal amount for 95.2381 Domtar common shares plus accrued interest payable in cash.

Weston's obligation on the exchange or redemption of these Debentures can be satisfied by delivery of a cash amount equivalent to the current market price of Domtar common shares at such time, the Domtar common shares or any combination thereof. Upon maturity, Weston at its option may deliver cash, the Domtar common shares or any combination thereof equal to 95.2381 Domtar common shares for each one thousand dollar principal amount of these Debentures. During 2005, $148 of the 3% Exchangeable Debentures were exchanged for Domtar common shares. A corresponding reduction in the investment in Domtar was recorded.

The carrying amount of these Debentures is based on their market price at the reporting date. As a result of Weston issuing these Debentures, the Domtar investment is hedged and the difference between the carrying amount and the original issue amount of the Debentures is recorded as a deferred amount until exchange, redemption or maturity. No corresponding valuation adjustment is made to the investment.

(iii) During 2005, Loblaw issued $300 of 5.90% MTN due 2036 and the Loblaw $200 of 6.95% MTN matured and was repaid.

(iv) Other of $1 (2004 – $5) represents the unamortized portion of the adjustment to fair value the Provigo Inc. Debentures. This adjustment was recorded as part of the Provigo purchase equation and was calculated using the average credit spread applicable at that time to the remaining life of the Provigo Inc. Debentures. The adjustment is being amortized over the remaining term of the Provigo Inc. Debentures.

(v) Pursuant to the requirements of AcG 15, the consolidated balance sheet as at December 31, 2005 includes $126 of loans payable of VIEs consolidated by the Company, $23 of which is due within one year. The loans payable represent financing obtained by eligible Loblaw independent franchisees through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixturing and equipment. The loans payable, which have an average term to maturity of 7 years, are due and payable on demand under certain predetermined circumstances and are secured through a general security agreement made by the independent franchisees in favour of the independent funding trust. Interest is charged on a floating rate basis and prepayment of the loans may be made without penalty. The independent funding trust within the structure finances its activities through the issuance of short term asset-backed notes to third-party investors.

As disclosed in note 22, a standby letter of credit has been provided by a major Canadian bank for the benefit of the independent funding trust equal to approximately 10% of the total principal amount of the loans outstanding at any point in time. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. In the event of a default by an independent franchisee, the independent funding trust may assign the loan to Loblaw and draw upon the standby letter of credit. No amount has ever been drawn on the standby letter of credit.

17. Other Liabilities

		2005		2004
Accrued benefit plan liability (note 15)	$	297	$	284
Accrued insurance liabilities		96		111
Asset retirement obligation		20		21
Goods and Services Tax and provincial sales taxes (note 4)		16		
Restructuring and other charges (note 3)		25		
Stock-based compensation liability		16		92
Unrealized equity derivative liability (note 20)		28		118
Other		82		91
Other liabilities	$	580	$	717

18. Share Capital

		2005		2004
Common share capital	$	131	$	126
Preferred shares, Series I		228		228
Preferred shares, Series II		260		260
Preferred shares, Series III		196		
Preferred shares, Series IV		197		
Share capital	$	1,012	$	614

Common Share Capital (authorized – unlimited)

The changes in the common shares issued and outstanding during the year were as follows:

	2005			2004		
	Number of Common Shares		Common Share Capital	Number of Common Shares		Common Share Capital
Issued and outstanding, beginning of year	128,913,579	$	126	129,433,442	$	120
Issued from treasury[1]	124,647		5	67,337		7
Purchased for cancellation				(587,200)		(1)
Issued and outstanding, end of year	129,038,226	$	131	128,913,579	$	126
Weighted average outstanding	129,027,722			128,915,636		

(1) 2005 share capital includes $5 (2004 – $1) issued for stock options exercised (see note 19). 2004 share capital also includes $6 issued as consideration in the acquisition of Gadoua (see note 6).

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

Weston has 9.4 million 5.80% Preferred Shares, Series I outstanding, which entitle the holder to a fixed cumulative preferred cash dividend of $1.45 per share per annum. Weston may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after December 15, 2006 at $26.00 per share
On or after December 15, 2007 at $25.75 per share
On or after December 15, 2008 at $25.50 per share
On or after December 15, 2009 at $25.25 per share
On or after December 15, 2010 at $25.00 per share

At any time after issuance, Weston may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston.

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

Weston has 10.6 million 5.15% Preferred Shares, Series II outstanding which entitle the holder to a fixed cumulative preferred cash dividend of $1.2875 per share per annum. On or after April 1, 2009, Weston may, at its option, redeem for cash these outstanding preferred shares, in whole or in part, at $25.00 per share. On and after July 1, 2009, these outstanding preferred shares are convertible, at the option of the holder, into a number of Weston's common shares determined by dividing $25.00 by the greater of $2.00 and 95% of the then current market price of Weston's common shares. At any time after issuance, Weston may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston.

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

During 2005, Weston issued 8.0 million 5.20% Preferred Shares, Series III for $25.00 per share for net proceeds of $194 million which entitle the holder to a fixed cumulative preferred cash dividend of $1.30 per share per annum. In addition, included in share capital is a future tax benefit of $2 million related to the deductibility of the issuance costs. Weston may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 1, 2010 at $26.00 per share
On or after July 1, 2011 at $25.75 per share
On or after July 1, 2012 at $25.50 per share
On or after July 1, 2013 at $25.25 per share
On or after July 1, 2014 at $25.00 per share

At any time after issuance, Weston may, at its option, give the holder of these preferred shares the right, at the option of the holder, to convert their shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston.

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

During 2005, Weston issued 8.0 million 5.20% Preferred Shares, Series IV for $25.00 per share for net proceeds of $195 million which entitle the holder to a fixed cumulative preferred cash dividend of $1.30 per share per annum. In addition, included in share capital is a future tax benefit of $2 million related to the deductibility of the issuance costs. Weston may, at its option, redeem for cash in whole or in part, these outstanding preferred shares as follows:

On or after October 1, 2010 at $26.00 per share
On or after October 1, 2011 at $25.75 per share
On or after October 1, 2012 at $25.50 per share
On or after October 1, 2013 at $25.25 per share
On or after October 1, 2014 at $25.00 per share

At any time after issuance, Weston may, at its option, give the holder of these preferred shares the right, at the option of the holder, to convert their shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston.

NCIB ($)

During 2004, Weston purchased for cancellation 587,200 of its common shares for $59 million. In addition, Weston intends to renew its NCIB to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its common shares outstanding. Weston, in accordance with the rules and by-laws of the Toronto Stock Exchange, may purchase its common shares at the then market price of such shares.

19. Stock-Based Compensation ($ except table)

The Company maintains five types of stock-based compensation, which are described below.

Stock Option Plans

Weston maintains a stock option plan for certain employees. Under this plan, Weston may grant options for up to seven million of its common shares, as approved by the shareholders of the Company; however, Weston has set a guideline which limits the number of stock option grants to a maximum of 5% of outstanding common shares at any time. Stock options have up to a seven-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of Weston's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of Weston at the price specified in the terms of the option agreement, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2005, Weston granted 401,668 stock options to 106 employees at a weighted average exercise price of $109.884 per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2005, Weston granted 213,994 stock options to 19 employees at a weighted average exercise price of $111.02 per common share, which will be settled by issuing common shares. The weighted average grant-date fair value of these stock options of $3 million was estimated using the Black-Scholes model for pricing options assuming a weighted average expected dividend yield of 1.3% annually, a weighted average risk free interest rate of 3.1%, a weighted average expected common share price volatility of 17.1% and a weighted average expected option life of 3 years.

In addition, during 2005, Weston granted 70,000 stock options to 1 employee at a weighted average exercise price of $95.88 per common share, which will be settled by issuing common shares. The weighted average grant-date fair value of these stock options of $1 million was estimated using the Black-Scholes model for pricing options assuming a weighted average expected dividend yield of 1.5% annually, a weighted average risk free interest rate of 3.7%, a weighted average expected common share price volatility of 16.5% and a weighted average expected option life of 3 years.

During 2005, Weston issued 124,647 (2004 – 8,604) common shares on the exercise of stock options for cash consideration of $5 million (2004 – $0.4 million), for which it had recorded a nominal stock-based compensation liability. In addition, the share appreciation value of $11 million (2004 – $12 million) was paid on the exercise of 224,638 (2004 – 238,627) stock options and 31,957 (2004 – 24,091) stock options were forfeited or cancelled during 2005.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 20.4 million of its common shares, as approved by the shareholders of the Company; however, Loblaw has set a guideline which limits the number of stock option grants to a maximum of 5% of outstanding common shares at any time. Stock options have up to a seven-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of Loblaw's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of Loblaw at the price specified in the terms of the option agreement, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2005, Loblaw granted 2,247,627 (2004 – 45,000) stock options with a weighted average exercise price of $69.729 (2004 – $65.453) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2005, Loblaw issued 25,000 (2004 – 3,000) common shares on the exercise of stock options for cash consideration of $0.9 million (2004 – $0.1 million), for which it had recorded a stock-based compensation liability of $1 million (2004 – nominal). In addition, the share appreciation value of $41 million (2004 – $33 million) was paid on the exercise of 1,135,221 (2004 – 985,395) stock options and 147,942 (2004 – 97,673) of Loblaw's stock options were forfeited or cancelled during 2005.

Subsequent to year end 2005, Loblaw granted 48,742 stock options under its current stock option plan, that allow for settlement in shares or in the share appreciation value in cash at the option of the employee, to 1 employee with an exercise price of $54.71 per common share.

Share Appreciation Right Plan

Weston maintains a share appreciation right plan for certain senior United States employees. Share appreciation rights have up to a seven-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of Weston's common shares on the last trading day prior to the effective date of the grant. When they are exercised, the employee will receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified right price.

During 2005, Weston granted 174,108 share appreciation rights to 86 employees at a weighted average exercise price of $111.02 per common share under its existing share appreciation right plan, which will be settled in cash.

In 2005, a nominal amount was paid on the exercise of 19,400 (2004 – 10,800) share appreciation rights and 7,000 (2004 – 32,800) were forfeited or cancelled.

Restricted Share Unit ("RSU") Plans

During 2005, Weston and Loblaw adopted a RSU plan for certain senior employees. The RSUs entitle the employee to a cash payment after the end of each performance period, of up to 3 years, following the date of the award. The RSU payment will be an amount equal to the weighted average price of a Weston or Loblaw common share for a prescribed period immediately preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

During 2005, Weston granted 160,958 RSUs to 185 employees and 1,057 RSUs were cancelled. In addition, during 2005, Loblaw granted 393,335 RSUs to 236 employees and 10,151 RSUs were cancelled. At year end, a total of 159,901 Weston and 383,184 Loblaw RSUs were outstanding.

Subsequent to year end 2005, Weston awarded 143,049 RSUs to 99 employees and Loblaw awarded 644,712 RSUs to 231 employees.

Deferred Share Unit ("DSU") Plans

Outside members of Weston's and Loblaw's Boards of Directors may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs, the value of which is determined by the market price of Weston's or Loblaw's common shares at the time the director's annual retainer(s) or fees are earned. Upon termination of Board service, the common shares due to the director, as represented by the DSUs, will be purchased on the open market on the director's behalf. At year end, Weston had 21,609 (2004 – 17,176) and Loblaw had 36,666 (2004 – 30,908) DSUs outstanding. The year-over-year change in the deferred share units liability was minimal (2004 – $3 million) and was recognized in operating income.

Employee Share Ownership Plans ("ESOPs")

Weston and Loblaw maintain ESOPs for their employees, which allow employees to acquire Weston's and Loblaw's common shares through payroll deductions of up to 5% of their gross regular earnings. Weston and Loblaw contribute an additional 25% (2004 – 15%) of each employee's contribution to its plan. The ESOPs are administered through a trust, which purchases Weston's and Loblaw's common shares on the open market on behalf of employees. A compensation cost of $6 million (2004 – $3 million) related to these plans was recognized in operating income.

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

($ millions)		2005		2004
Stock option plans/share appreciation right plan (income) expense	$	(46)	$	31
Equity derivatives loss (gain)		108		(34)
Restricted share unit plan expense		10		
Net stock-based compensation cost	$	72	$	(3)

Stock option and share appreciation right transactions were as follows:

	2005		2004	
	Options/ Rights (number of shares)	Weighted Average Exercise Price/Share	Options/ Rights (number of shares)	Weighted Average Exercise Price/Share
Outstanding options/rights, beginning of year	**1,679,172**	**$ 82.687**	2,005,094	$ 79.158
Granted	**859,770**	**$ 109.257**		
Exercised	**(368,685)**	**$ 56.531**	(258,031)	$ 52.560
Forfeited/cancelled	**(38,957)**	**$ 96.136**	(67,891)	$ 92.968
Outstanding options/rights, end of year[1]	**2,131,300**	**$ 97.684**	1,679,172	$ 82.687
Options/rights exercisable, end of year	**615,055**	**$ 85.593**	598,262	$ 72.250

(1) Options/rights outstanding represented approximately 1.7% (2004 – 1.4%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%.

The following table summarizes information about stock option and share appreciation rights outstanding:

	2005				
	Outstanding Options/Rights			Exercisable Options/Rights	
Range of Exercise Prices ($)	Number of Options/ Rights Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options/ Rights	Weighted Average Exercise Price/Share
$49.700 – $ 78.850	**203,660**	**1**	**$ 62.475**	**178,295**	**$ 60.145**
$93.350 – $111.020	**1,927,640**	**5**	**$ 101.404**	**436,760**	**$ 95.981**

20. Financial Instruments

A summary of Weston's and Loblaw's outstanding financial derivative instruments is as follows:

	Notional Amounts Maturing in						2005	2004
	2006	2007	2008	2009	2010	Thereafter	**Total**	Total
Cross currency basis swaps	$ 11	$ 76	$ 140	$ 31	$ 174	$ 604	**$ 1,036**	$ 1,114
Interest rate swaps (receive)/pay	$ (43)		$ 240	$ 140	$ 50	$ 50	**$ 437**	$ 798
Equity derivatives			$ 92		$ 199	$ 733	**$ 1,024**	$ 983
Electricity forward contract								$ 16

Cross Currency Basis Swaps

Loblaw entered into cross currency basis swaps to receive $1.0 billion (2004 – $1.1 billion) of Canadian dollars in exchange for United States dollars, which mature by 2016. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. At year end, a cumulative unrealized foreign currency exchange rate receivable of $168 (2004 – $155) was recorded in other assets.

Interest Rate Swaps

During 2004, Weston entered into interest rate swap contracts with a notional value of $200 which mature in 2014. These interest rate swaps were designated as a fair value hedge of the $200 of 5.05% MTN due 2014. Under the terms of the interest rate swaps, Weston received a fixed interest rate of 4.8% and paid a floating interest rate. During 2005, Weston terminated these interest rate swaps. The gain of $5 realized on the termination of these swaps will be deferred and recognized over the remaining term of the initial hedge in interest expense and other financing charges.

In 2004, Weston interest rate swaps converting a net notional $75 of its 6.7% fixed rate debt into floating rate debt, matured.

Loblaw enters into interest rate swaps to hedge a portion of its exposure to fluctuations in interest rates. Loblaw's interest rate swaps convert a net notional $437 (2004 – $598) of its floating rate investments to fixed rate investments at 4.76% (2004 – 5.80%), which mature by 2013.

Equity Swaps and Forwards ($)

In 2005, Weston had cumulative outstanding equity swaps in its common shares of 1,686,700 (2004 – 1,686,700) at an average forward price of $103.17 (2004 – $103.17). In 2005, Loblaw had cumulative outstanding equity forwards in its common shares of 4.8 million (2004 – 4.8 million), at an average forward price of $50.02 (2004 – $49.25) including $5.15 (2004 – $4.38) per common share of interest expense net of dividends that has been recognized in net earnings from continuing operations and will be paid at termination. These swaps and forwards allow for several methods of settlement including net cash settlement. They change in value as the market price of the underlying common shares changes and provide a partial offset to fluctuations in Weston's and Loblaw's stock-based compensation cost. The partial offset between the Company's stock-based compensation costs and the equity derivatives is effective as long as the market prices of Weston and Loblaw common shares exceed the exercise price of the related employee stock options. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised, vested stock options and restricted share units relative to the number of underlying common shares on the equity derivatives and the fluctuations in the market price of the underlying common shares. The Company has included an unrealized market loss of $28 million in other liabilities (2004 – gain of $11 million in other assets) relating to these swaps and has included an unrealized market gain in other assets of $30 million (2004 – $109 million) relating to these forwards.

In 2001, Weston 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, as at December 31, 2005, had increased to a forward price of $63.50 (2004 – $59.70) per Loblaw common share. The forward matures in 2031 and will be settled in cash as follows: Weston will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of Weston under this forward is secured by the underlying Loblaw common shares. Weston entered into this forward to partially offset any repayment risk associated with its Series A, 7.00% and Series B Debentures. Further, the market value of the underlying Loblaw common shares exceeds the obligation of Weston under this forward and a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity. Accordingly, hedge accounting was applied from inception of this agreement until the end of the second quarter of 2004.

Effective as of the third quarter of 2004, hedge accounting is no longer permissible for Weston's forward sale agreement for 9.6 million Loblaw common shares as a result of the March 2004 amendment to EIC 56. EIC 56 was amended to conform with the provisions of AcG 13, which deal with items ineligible for hedge accounting, by rescinding the ability to use hedge accounting if an entity's investment in the underlying shares is consolidated or is accounted for by the equity method. The effective date to cease the hedge accounting described was the first fiscal period commencing after July 1, 2004. As a result of adopting this amendment to EIC 56, Weston is required to recognize a non-cash charge or income, which is included in consolidated interest expense and other financing charges, representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares from the beginning of the third quarter of 2004. The fair value adjustment is based on fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the 9.6 million Loblaw common shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the consolidated balance sheet in other assets and other liabilities. According to the transitional provisions, the non-cash fair value adjustment as of the effective date of the amendment to EIC 56 amounted to $125 million and will remain deferred in other assets on the consolidated balance sheet and will be recognized in net earnings from continuing operations at maturity or upon termination of the forward sale agreement. At year end, Weston had a receivable under this forward of $69 million, which was included in other assets (2004 – obligation of $118 million included in other liabilities).

Electricity Forward Contract

The Company entered into an electricity forward contract to minimize price volatility and to maintain a portion of the Company's electricity costs in Ontario, Canada at approximately 2001 rates. This electricity forward contract had an initial term of three years and expired in May 2005.

Fair Value of Financial Instruments

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to terminate the instrument agreement at the reporting date. The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

- The fair values of cash, cash equivalents, short term investments, accounts receivable, bank indebtedness, commercial paper, accounts payable, accrued liabilities and short term bank loans approximated their carrying values given their short term maturities.
- The fair value of long term debt issues was estimated based on the discounted cash flows of the debt at the Company's estimated incremental borrowing rates for debt of the same remaining maturities.
- The fair value of the Exchangeable Debentures was estimated based on their market price at the reporting date.
- The fair value of the cross currency basis swaps was estimated based on the market spot exchange rate and forward interest rates and approximated their carrying value.
- The fair value of the interest rate swaps was estimated by discounting net cash flows of the swaps at market and forward interest rates for swaps of the same remaining maturities.
- The fair value of the equity swaps and forwards was estimated by multiplying the number of Weston and Loblaw common shares outstanding under the swaps and forwards by the difference between the market price of the common shares and the average forward price of the outstanding swaps and forwards at year end.
- In 2004, the fair value of the electricity forward contract was provided by the counterparty based on expected future electricity prices.

	2005		2004	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long term debt liability	**$ 6,412**	**$ 7,149**	$ 6,328	$ 7,100
Long term debt liability (excluding Exchangeable Debentures)	**$ 6,187**	**$ 7,006**	$ 5,955	$ 6,596
Interest rate swaps net (liability) asset		**$ (11)**	$ (2)	$ 9
Equity swaps and forwards net asset	**$ 71**	**$ 71**	$ 2	$ 2
Electricity forward contract net asset				$ 3

Counterparty Risk

The Company may be exposed to losses should any counterparty to its financial derivative agreements fail to fulfill its obligations. The Company has sought to minimize potential counterparty risk and losses by conducting transactions for its derivative agreements with counterparties that have at minimum a long term A credit rating from a recognized credit rating agency and by placing risk adjusted limits on its exposure to any single counterparty for its financial derivative agreements. The Company has internal policies, controls and reporting processes which require ongoing assessment and corrective action, if necessary, with respect to its derivative transactions. In addition, principal amounts on cross currency basis swaps and equity derivatives are each netted by agreement and there is no exposure to loss of the original notional principal amounts on the interest rate swaps and equity derivatives.

Credit Risk

The Company's exposure to credit risk relates to the Company's cash equivalents and short term investments, Weston Foods' trade and other accounts receivables and Loblaw's credit card receivables and accounts receivable from franchisees, associates and independent accounts.

Credit risk associated with the Company's cash equivalents and short term investments results from the possibility that a counterparty may default on the repayment of a security. This risk is mitigated by the Company's policies and guidelines that require issuers of permissible investments to have at minimum a long term A credit rating from a recognized credit rating agency and specify minimum and maximum exposures to specific issuers.

Weston Foods performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivables in order to mitigate any possible credit losses.

Loblaw's exposure to credit risk from PC Bank's credit card receivables and receivables from franchisees, associates and independents results from the possibility that customers may default on their payment obligation. PC Bank manages the credit card receivable risk by employing stringent credit scoring techniques and actively monitoring its credit card portfolio. In addition, these receivables are dispersed among a large, diversified group of credit card customers. Loblaw accounts receivable from franchisees, associates 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.

21. Cumulative Foreign Currency Translation Adjustment

In 2005, as a result of the strengthening of the Canadian dollar relative to the United States dollar, the change in the cumulative foreign currency translation adjustment decreased shareholders' equity by $114 (2004 – $213). This net change was due to the negative impact of translating the Company's U.S. net investment in self-sustaining foreign operations as a result of the strengthening of the Canadian dollar relative to the United States dollar.

22. Contingencies, Commitments and Guarantees

The Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business including, but not limited to, product liability, labour and employment, regulatory and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital and commodity taxes and as a result of these audits, may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to these consolidated financial statements.

There are various operating leases that have been committed to. Future minimum lease payments relating to these operating leases are as follows:

	Payments due by year							
	2006	2007	2008	2009	2010	Thereafter to 2049	**2005 Total**	2004 Total
Operating lease payments	$ 234	$ 215	$ 189	$ 163	$ 140	$ 860	**$ 1,801**	$ 1,526
Expected sub-lease income	(48)	(41)	(35)	(30)	(22)	(94)	**(270)**	(299)
Net operating lease payments	$ 186	$ 174	$ 154	$ 133	$ 118	$ 766	**$ 1,531**	$ 1,227

At year end, the Company has committed approximately $308 (2004 – $357) with respect to capital investment projects such as the construction, expansion and renovation of buildings and the purchase of real property.

The Company establishes standby letters of credit used in connection with certain obligations mainly related to real estate transactions and benefit programs. The aggregate gross potential liability related to these standby letters of credit is approximately $414 (2004 – $303). Other standby letters of credit related to the financing program for Loblaw's franchisees and securitization of PC Bank's credit card receivables have been identified as guarantees and are discussed further in the Guarantees section below.

Guarantees

The Company has provided to third parties the following significant guarantees as defined pursuant to Accounting Guideline 14, "Disclosure of Guarantees":

Standby Letters of Credit A standby letter of credit for the benefit of an independent trust with respect to the credit card receivables securitization program of PC Bank, a wholly owned subsidiary of Loblaw, has been issued by a major Canadian bank. This standby letter of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. Loblaw believes that the likelihood of this occurrence is remote. The aggregate gross potential liability under this arrangement, which represents 9% (2004 – 15%) of the securitized credit card receivables amount, is approximately $91 (2004 – $118).

A standby letter of credit has been issued by a major Canadian bank in the amount of $42 (2004 – $42) for the benefit of an independent funding trust which provides loans to Loblaw's franchisees for their purchase of inventory and fixed assets, mainly fixturing and equipment. The amount of the standby letter of credit is based on a formula and is equal to approximately 10% of the principal amount of the loans outstanding at any point in time. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust may assign the loan to Loblaw and draw upon this standby letter of credit. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is $138 (2004 – $145).

Indemnification Provisions The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representation and warranty or for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. Given the nature of such indemnification provisions, the Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

During 2004, Weston was served with a statement of claim for damages arising from an alleged breach of tax related representations and warranties dealing with years prior to the 1998 sale of Weston's forest products business. Subsequent to year end, this claim was settled and the impact was reflected as part of discontinued operations (see note 9).

23. Related Party Transactions

The Company's majority shareholder, Wittington Investments, Limited ("Wittington"), and its affiliates are related parties. The Company, in the normal course of business, has routine transactions with these related parties, including the rental of office space at market prices from Wittington. Rental payments to Wittington amounted to approximately $5 (2004 – $4). In 2004, a one time payment of $8 for a property designated for future development was also made. It is the Company's policy to conduct all transactions and settle balances with related parties on normal trade terms.

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

24. Segment Information

The Company has two reportable operating segments: Weston Foods and Loblaw. The Weston Foods segment is primarily engaged in the baking and dairy industries within North America. The Loblaw segment, which is operated by Loblaw Companies Limited and its subsidiaries, focuses on food distribution and the merchandising of general merchandise, drugstore and financial products and services. In prior years, the Company reported the Loblaw segment as the Food Distribution segment.

The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies. The Company measures each reportable operating segment's performance based on operating income. Neither reportable operating segment is reliant on any single external customer.

	2005	2004
Sales		
Weston Foods	$ 4,376	$ 4,335
Loblaw	27,801	26,209
Intersegment	(814)	(746)
Consolidated	$ 31,363	$ 29,798
Operating Income[1]		
Weston Foods	$ 241	$ 138
Loblaw	1,393	1,644
Consolidated	$ 1,634	$ 1,782
Depreciation and Amortization		
Weston Foods	$ 126	$ 145
Loblaw	558	473
Consolidated	$ 684	$ 618
Total Assets		
Weston Foods[2]	$ 4,675	$ 4,614
Loblaw	13,906	13,082
Discontinued Operations	12	73
Consolidated	$ 18,593	$ 17,769
Fixed Assets and Goodwill Purchases		
Weston Foods	$ 202	$ 188
Loblaw	1,170	1,288
Consolidated	$ 1,372	$ 1,476

(1) 2005 includes restructuring and other charges of $118 (2004 – $122) made up of a $32 (2004 – $121) charge recognized by Weston Foods and an $86 (2004 – $1) charge recognized by Loblaw (see note 3).

(2) Includes the $220 (2004 – $365) investment in Domtar common shares, which is effectively hedged as a result of Weston issuing the 3% Exchangeable Debentures (see note 16).

The Company operates primarily in Canada and the United States.

	2005	2004
Sales (excluding intersegment)		
Canada	$ 28,393	$ 26,749
United States	2,970	3,049
Consolidated	$ 31,363	$ 29,798
Fixed Assets and Goodwill		
Canada	$ 9,890	$ 9,268
United States	1,912	1,945
Consolidated	$ 11,802	$ 11,213

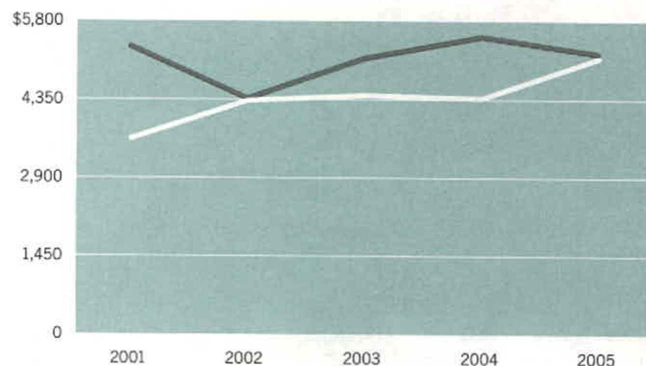
FIVE YEAR SUMMARY

Consolidated Information – Continuing Operations[1]

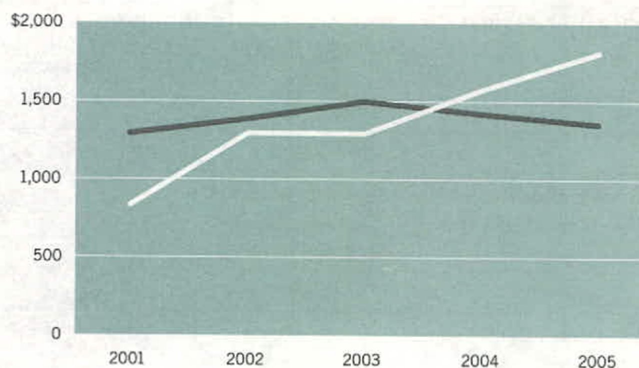
For the years ended December 31 ($ millions except where otherwise indicated)	2005	2004	2003	2002	2001
Operating Results					
Sales	**31,363**	29,798	29,021	27,239	24,276
Sales excluding impact of VIEs[2]	**30,985**	29,798	29,021	27,239	24,276
Adjusted EBITDA[2, 3]	**2,552**	2,519	2,418	2,234	1,859
Operating income[3]	**1,634**	1,782	1,832	1,704	1,397
Adjusted operating income[2, 3]	**1,894**	1,901	1,881	1,736	1,441
Interest expense and other financing charges[4]	**187**	438	266	238	221
Net earnings from continuing operations	**716**	606	807	708	602
Financial Position					
Working capital	**515**	153	182	45	(730)
Fixed assets	**8,916**	8,256	7,665	6,970	6,196
Goodwill	**2,886**	2,957	2,993	3,338	3,330
Total assets	**18,593**	17,769	17,278	16,624	16,287
Net debt[2]	**5,433**	5,895	5,497	4,751	5,711
Shareholders' equity	**5,119**	4,380	4,430	4,335	3,626
Cash Flows					
Cash flows from operating activities of continuing operations	**1,812**	1,576	1,294	1,296	834
Capital investment	**1,358**	1,425	1,502	1,390	1,296
Per Common Share ($)					
Basic net earnings from continuing operations	**5.25**	4.49	5.91	5.19	4.58
Adjusted basic net earnings from continuing operations[2]	**5.64**	5.50	5.84	5.34	4.17
Common dividend rate at year end	**1.44**	1.44	1.20	.96	.80
Cash flows from operating activities of continuing operations	**13.74**	12.02	9.61	9.65	6.34
Capital investment	**10.53**	11.06	11.39	10.54	9.86
Book value	**32.85**	30.19	30.46	29.08	25.84
Market value at year end	**86.31**	109.71	103.71	90.25	103.40
Financial Ratios					
Adjusted EBITDA margin (%)[2]	**8.2**	8.5	8.3	8.2	7.7
Operating margin (%)	**5.2**	6.0	6.3	6.3	5.8
Adjusted operating margin (%)[2]	**6.1**	6.4	6.5	6.4	5.9
Return on average total assets (%)[2]	**10.0**	11.5	12.4	12.3	12.3
Return on average common shareholders' equity (%)	**16.7**	14.8	20.0	18.9	19.1
Interest coverage	**8.7**	4.1	6.9	7.2	6.3
Net debt (excluding Exchangeable Debentures)[2] to equity	**1.02**	1.26	1.16	1.01	1.47
Cash flows from operating activities of continuing operations to net debt[2]	**.33**	.27	.24	.27	.15
Price/net earnings from continuing operations ratio at year end	**16.4**	24.4	17.5	17.4	22.6
Market/book ratio at year end	**2.6**	3.6	3.4	3.1	4.0

(1) For financial definitions and ratios refer to the Glossary on page 91.
(2) See Non-GAAP Financial Measures beginning on page 44.
(3) 2005 includes restructuring and other charges of $118 (2004 – $122) made up of a $32 (2004 – $121) charge recognized by Weston Foods and an $86 (2004 – $1) charge recognized by Loblaw (see note 3 to the consolidated financial statements).
(4) 2005 includes non-cash income of $150 (2004 – non-cash charge of $101) related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares (see note 5 to the consolidated financial statements).
(5) Certain prior year's information was reclassified to conform with the current year's presentation.

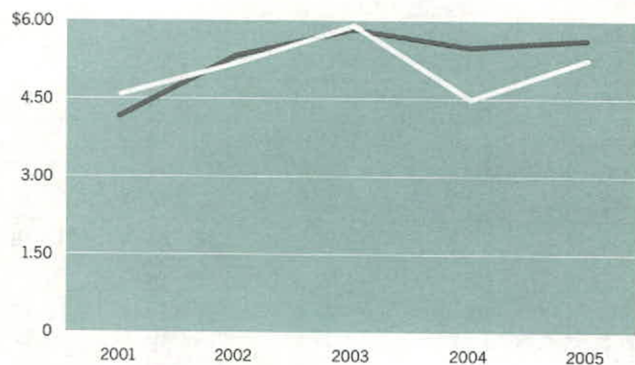
Shareholders' Equity and Net Debt[1, 2]
($ millions)



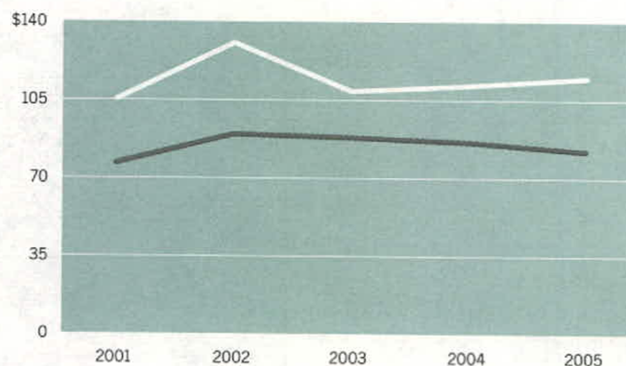
Cash Flows from Operating Activities and Capital Investment
($ millions)



Basic Net Earnings from Continuing Operations and Adjusted Basic Net Earnings from Continuing Operations[2]
Per Common Share ($)



Common Share Market Price Range
Per Common Share ($)



FIVE YEAR SUMMARY

Segment Information – Continuing Operations[1]

For the years ended December 31
($ millions except where otherwise indicated)

		2005	2004	2003	2002	2001
OPERATING RESULTS						
Sales	Weston Foods	**4,376**	4,335	4,523	4,792	3,412
	Loblaw	**27,801**	26,209	25,220	23,082	21,486
	Intersegment	**(814)**	(746)	(722)	(635)	(622)
	Consolidated	**31,363**	29,798	29,021	27,239	24,276
Sales Excluding Impact of VIEs[2]	Weston Foods	**4,376**	4,335	4,523	4,792	3,412
	Loblaw	**27,423**	26,209	25,220	23,082	21,486
	Intersegment	**(814)**	(746)	(722)	(635)	(622)
	Consolidated	**30,985**	29,798	29,021	27,239	24,276
Adjusted EBITDA[2, 3]	Weston Foods	**428**	401	546	571	416
	Loblaw	**2,124**	2,118	1,872	1,663	1,443
	Consolidated	**2,552**	2,519	2,418	2,234	1,859
Operating Income[3]	Weston Foods	**241**	138	374	409	269
	Loblaw	**1,393**	1,644	1,458	1,295	1,128
	Consolidated	**1,634**	1,782	1,832	1,704	1,397
Adjusted Operating Income[2, 3]	Weston Foods	**302**	256	402	427	313
	Loblaw	**1,592**	1,645	1,479	1,309	1,128
	Consolidated	**1,894**	1,901	1,881	1,736	1,441
FINANCIAL POSITION						
Fixed Assets	Weston Foods	**1,131**	1,143	1,275	1,413	1,265
	Loblaw	**7,785**	7,113	6,390	5,557	4,931
	Consolidated	**8,916**	8,256	7,665	6,970	6,196
Total Assets	Weston Foods[4]	**4,675**	4,614	4,780	5,228	5,995
	Loblaw	**13,906**	13,082	12,230	11,104	9,972
	Discontinued operations	**12**	73	268	292	320
	Consolidated	**18,593**	17,769	17,278	16,624	16,287
CASH FLOWS						
Capital Investment	Weston Foods	**202**	167	231	311	188
	Loblaw	**1,156**	1,258	1,271	1,079	1,108
	Consolidated	**1,358**	1,425	1,502	1,390	1,296
FINANCIAL RATIOS						
Adjusted EBITDA Margin (%)[2]	Weston Foods	**9.8**	9.3	12.1	11.9	12.2
	Loblaw	**7.7**	8.1	7.4	7.2	6.7
	Consolidated	**8.2**	8.5	8.3	8.2	7.7
Operating Margin (%)	Weston Foods	**5.5**	3.2	8.3	8.5	7.9
	Loblaw	**5.0**	6.3	5.8	5.6	5.2
	Consolidated	**5.2**	6.0	6.3	6.3	5.8
Adjusted Operating Margin (%)[2]	Weston Foods	**6.9**	5.9	8.9	8.9	9.2
	Loblaw	**5.8**	6.3	5.9	5.7	5.2
	Consolidated	**6.1**	6.4	6.5	6.4	5.9
Return on Average Total Assets (%)[2]	Weston Foods	**6.5**	3.6	9.0	9.2	9.4
	Loblaw	**11.0**	14.0	13.7	13.7	13.2
	Consolidated	**10.0**	11.5	12.4	12.3	12.3

(1) For financial definitions and ratios refer to the Glossary on page 91.
(2) See Non-GAAP Financial Measures beginning on page 44.
(3) 2005 includes restructuring and other charges of $118 (2004 – $122) made up of a $32 (2004 – $121) charge recognized by Weston Foods and an $86 (2004 – $1) charge recognized by Loblaw (see note 3 to the consolidated financial statements).
(4) Total assets include the following: 2005 – $220 (2004 – $365, 2002 to 2003 – $367, 1998 to 2001 – $368) investment in Domtar common shares; and 2001 total assets include $934 business held for sale.
(5) Certain prior year's information was reclassified to conform with the current year's presentation.

GLOSSARY

Adjusted basic net earnings per common share from continuing operations
Basic net earnings per common share from continuing operations adjusted for items that affect the comparability of the financial results and are not a result of ongoing operations (see Non-GAAP Financial Measures beginning on page 44).

Adjusted EBITDA
Adjusted operating income before depreciation and amortization (see Non-GAAP Financial Measures beginning on page 44).

Adjusted EBITDA margin
Adjusted EBITDA divided by sales excluding impact of VIEs (see Non-GAAP Financial Measures beginning on page 44).

Adjusted operating income
Operating income adjusted for items that affect the comparability of the financial results and are not a result of ongoing operations (see Non-GAAP Financial Measures beginning on page 44).

Adjusted operating income margin
Adjusted operating income divided by sales excluding impact of VIEs (see Non-GAAP Financial Measures beginning on page 44).

Annual Report
For 2005, the Annual Report consists of the Annual Summary and the Financial Report.

Basic net earnings per common share from continuing operations
Net earnings from continuing operations available to common shareholders divided by the weighted average number of common shares outstanding during the year.

Book value per common share
Common shareholders' equity divided by the number of common shares outstanding at year end.

Capital investment
Fixed asset purchases.

Capital investment per common share
Capital investment divided by the weighted average number of common shares outstanding during the year.

Cash flows from operating activities of continuing operations per common share
Cash flows from operating activities of continuing operations less preferred dividends paid divided by the weighted average number of common shares outstanding during the year.

Cash flows from operating activities of continuing operations to net debt
Cash flows from operating activities of continuing operations divided by net debt (see Non-GAAP Financial Measures beginning on page 44).

Common shareholders' equity
Total shareholders' equity less preferred shares outstanding.

Control label
A brand and associated trademark that is owned by Loblaw for use in connection with its own products and services.

Conversion
A store that changes from one Loblaw banner to another Loblaw banner.

Corporate stores sales per average square foot
Sales by corporate stores divided by the average corporate stores' square footage at year end.

Diluted net earnings per common share from continuing operations
Net earnings from continuing operations available to common shareholders divided by the weighted average number of common shares outstanding during the period minus the dilutive impact of outstanding stock option grants at period end.

Dividend rate per common share at year end
Dividends per common share declared in the fourth quarter multiplied by four.

Gross margin
Sales less cost of sales and inventory shrinkage divided by sales.

Interest coverage
Operating income divided by interest expense and other financing charges.

Major expansion
Expansion of a store that results in an increase in square footage that is greater than 25% of the square footage of the store prior to the expansion.

Market/book ratio at year end
Market price per common share at year end divided by book value per common share at year end.

Minor expansion
Expansion of a store that results in an increase in square footage that is less than or equal to 25% of the square footage of the store prior to the expansion.

Net debt
Bank indebtedness, commercial paper, short term bank loans, long term debt due within one year and long term debt less cash, cash equivalents and short term investments (see Non-GAAP Financial Measures beginning on page 44).

Net debt (excluding Exchangeable Debentures) to equity
Net debt excluding Exchangeable Debentures divided by total shareholders' equity (see Non-GAAP Financial Measures beginning on page 44).

Net debt to equity
Net debt divided by total shareholders' equity.

New store
A newly constructed store, conversion or major expansion.

Operating income
Net earnings from continuing operations before minority interest, interest expense and other financing charges and income taxes.

Operating margin
Operating income divided by sales.

Price earnings from continuing operations ratio at year end
Market price per common share at year end divided by basic net earnings per common share from continuing operations for the year.

Renovation
Capital investment in a store resulting in no change to the store square footage.

Retail sales
Combined sales of stores owned by Loblaw and those owned by Loblaw's independent franchisees.

Retail square footage
Retail square footage includes corporate and independent franchised stores.

Return on average common shareholders' equity
Net earnings from continuing operations available to common shareholders divided by average common shareholders' equity.

Return on average total assets
Operating income divided by average total assets excluding cash, cash equivalents, short term investments and assets held for sale (see Non-GAAP Financial Measures beginning on page 44).

Sales excluding impact of VIEs
Total sales less sales attributable to the consolidation of VIEs pursuant to AcG 15 (see Non-GAAP Financial Measures beginning on page 44 and note 2 to the consolidated financial statements).

Same-store sales
Retail sales from the same physical location for stores in operation in that location in both periods being compared but excluding sales from a store that has undergone a conversion or major expansion in the period.

Variable interest entity ("VIE")
An entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest (see note 2 to the consolidated financial statements).

Weighted average common shares outstanding
The number of common shares outstanding determined by relating the portion of time within the year that the common shares were outstanding to the total time in that year.

Working capital
Total current assets excluding current assets of operations held for sale, less total current liabilities excluding current liabilities of operations held for sale.

Year
The Company's year end is December 31. Sales and related activities are reported on a fiscal year ending on the Saturday closest to December 31, usually 52 weeks in duration, but includes 53 weeks every 5 to 6 years.

SHAREHOLDER AND CORPORATE INFORMATION

Executive Office
George Weston Limited
22 St. Clair Avenue East
Toronto, Canada M4T 2S7
Tel: 416.922.2500
Fax: 416.922.4395
www.weston.ca

Stock Exchange Listing and Symbols
The Company's common and preferred shares are listed on the Toronto Stock Exchange and trade under the symbols: "WN", "WN.PR.A", "WN.PR.B", "WN.PR.C" and "WN.PR.D".

Common Shares
At year end 2005, there were 129,038,226 common shares outstanding, 1,101 registered common shareholders and 48,354,078 common shares available for public trading.

The average 2005 daily trading volume of the Company's common shares was 68,945.

Preferred Shares
At year end 2005, there were 9,400,000 preferred shares Series I outstanding, 10,600,000 preferred shares Series II outstanding, 8,000,000 preferred shares Series III outstanding and 8,000,000 preferred shares Series IV outstanding and 61 registered preferred shareholders. All outstanding preferred shares were available for public trading.

The average 2005 daily trading volume of the Company's preferred shares was:

Series I:	7,349
Series II:	8,195
Series III:	28,445
Series IV:	19,768

Common Dividend Policy
It is the Company's policy to maintain a dividend payment equal to approximately 20% to 25% of the prior year's adjusted basic net earnings from continuing operations per common share.

Common Dividend Dates
The declaration and payment of quarterly common dividends are made subject to approval by the Board of Directors. The anticipated record and payment dates for 2006 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Jan. 1

Normal Course Issuer Bid
The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

Value of Common Shares
For capital gains purposes, the valuation day (December 22, 1971) cost base for the Company, adjusted for the 4 for 1 stock split (effective May 27, 1986) and the 3 for 1 stock split (effective May 8, 1998), is $1.50 per share. The value on February 22, 1994 was $13.17 per share.

Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada M5J 2Y1

Tel:	416.263.9200
Toll Free Tel:	1.800.663.9097
Fax:	416.263.9394
Toll Free Fax:	1.888.453.0330

To change your address or eliminate multiple mailings, or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Independent Auditors
KPMG LLP
Chartered Accountants
Toronto, Canada

Annual Meeting
The George Weston Limited Annual Meeting of Shareholders will be held on Thursday, May 11, 2006 at 11:00 a.m. at the Metro Toronto Convention Centre, Constitution Hall, Toronto, Canada.

Trademarks
George Weston Limited and its subsidiaries own a number of trademarks. These trademarks are the exclusive property of George Weston Limited and its subsidiary companies. Trademarks where used in this report are in italics.

Investor Relations
Shareholders, security analysts and investment professionals should direct their requests to Mr. Geoffrey H. Wilson, Senior Vice President, Investor Relations and Public Affairs at the Company's Executive Office or by e-mail at investor@weston.ca.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR). The Company holds an analyst call shortly following the release of its quarterly results, which is broadcast live on the Company's website. These calls are archived in the Investor Zone section of the Company's website.

This Annual Report includes selected information on Loblaw Companies Limited, a 62%-owned public reporting subsidiary company with shares trading on the Toronto Stock Exchange.

Ce rapport est disponible en français.

This Financial Report was printed in Canada on Husky Offset, manufactured elemental chlorine-free, at a mill independently certified as meeting the procurement provisions of the Sustainable Forestry Initiative® (SFI) standard.

Design and Coordination: Ove Design & Communications Ltd. www.ovedesign.com **Typesetting:** Moveable Inc. www.moveable.com **Printing:** Transcontinental Printing G.P.

Weston

22 St. Clair Avenue East
Toronto, Canada M4T 2S7
Tel: 416.922.2500
Fax: 416.922.4395
www.weston.ca

Weston

22 St. Clair Avenue East
Toronto, Canada M4T 2S7
Tel: 416.922.2500
Fax: 416.922.4395
www.weston.ca